

# 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)	410.2 / 5.5
52-Week Range (INR)	170 / 81
1, 6, 12 Rel. Per (%)	3/33/54
12M Avg Val (INR M)	1909

## Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	140.6	163.0	178.4
EBITDA	31.8	35.3	37.8
PAT	20.7	24.4	26.0
EBITDA (%)	22.6	21.7	21.2
EPS (INR)	8.5	10.0	10.7
EPS Gr. (%)	15.1	18.1	6.6
BV/Sh. (INR)	44.6	50.6	57.0

## Ratios

Net D/E	(0.5)	(0.4)	(0.4)
RoE (%)	19.0	19.8	18.7
RoCE (%)	19.9	21.0	19.9
Payout (%)	40.0	40.0	40.0

## Valuations

P/E (x)	19.9	16.8	15.8
P/BV (x)	3.8	3.3	3.0
EV/EBITDA (x)	11.3	10.2	9.4
Div Yield (%)	2.0	2.4	2.5
FCF Yield (%)	11.3	2.3	4.0

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	51.1	51.1	51.1
DII	30.2	31.3	30.2
FII	11.6	10.3	10.7
Others	7.1	7.3	8.0

FII Includes depository receipts

**CMP: INR168**
**TP: INR195 (+16%)**
**Buy**

## Strong execution, outlook robust with a healthy order book

### EBITDA margin beat driven by lower employee cost and other expenses

- BHE's 4QFY21 earnings were 39% above our estimate, with the surprise entirely led by higher than expected EBITDA margin (28.5% v/s our estimate of 21.3%). The EBITDA margin expansion was largely attributable to lower employee costs (-17% YoY), other expenses (-10% YoY) and higher domestic outsourcing by BHE.
- Margin depends on the sales mix between deliverables and hence tends to be volatile on a quarterly basis. BHE's current order book is strong at INR534b, with an OB/revenue ratio of 3.9x. The company raised its margin guidance to 21-22% from 18-19% in FY22.
- BHE ended FY21 with a 9%/17%/15% increase in revenue/EBITDA/PAT, which is commendable given the COVID-led disruptions. We increase our FY22E/FY23E EPS by 17%/14%, led by higher EBITDA, due to a revised margin guidance. Our revised TP stands at INR195/share (18x FY23E EPS). Maintain **Buy**.

### Margin led earnings beat

- **4QFY21 snapshot:** Revenue grew 19% YoY to INR69b and was 7% ahead of our estimate. Gross profit grew 14% YoY as gross margin contracted by 180bp to 41.1%. EBITDA grew 33% YoY to INR19.7b and was 43% ahead of our expectation. EBITDA margin came in at 28.5% v/s our estimate of 21.3%. Adjusted PAT grew 31% YoY to INR13.5b and was 39% ahead of our estimate.

### Highlights from the management commentary

- BHE is aiming at 15-17% revenue growth in FY22, with a revised EBITDA margin guidance of 21-22% (upward revision in guidance).
- Based on projects in the pipeline as well as upcoming project visibility, it expects INR150-170b of order inflows in FY22.
- Inventory levels are slightly elevated owing to the expedition of deliverables. BHE has collected the highest ever receivables of INR180b in FY21.
- The management aims to grow the non-Defense (Civil) part of the business, via categories like: a) medical equipment, b) metro projects, c) EV batteries, d) space systems, e) aerospace (sensors etc.), and f) smart city projects.
- It is aiming at an export growth of over 15% (over USD60m) in FY22. The company has opened many marketing offices overseas and is participating in tenders as and when they come. The current order book stood at INR12b, with an aim to add orders worth USD100m in FY22.

### Valuation and view

- We forecast revenue/EBITDA/PAT CAGR of 11%/9%/11% over FY21-24E. We have built in a sufficient margin cushion as we assume an EBITDA margin of 21.7%/21.2% by FY22E/FY23E (v/s 22.6% reported in FY21). Our revised TP stands at INR195/share (18x FY23E EPS). At the CMP, the stock trades at 17x/16x FY22E/FY23E P/E, despite having an RoE/RoCE of ~19%/20%, dividend yield of ~3%, and FCF yield of 2-4%. Maintain **Buy**. 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.**

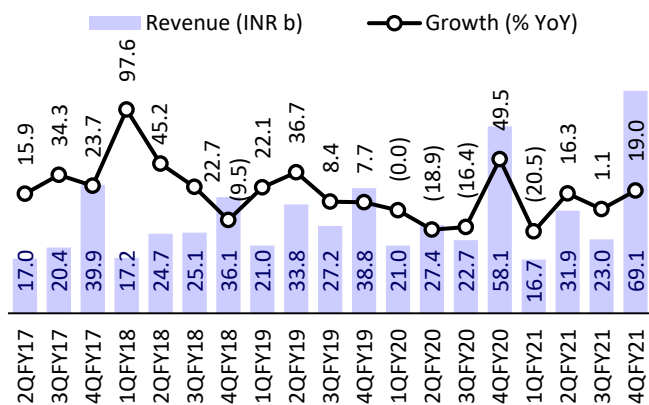
 Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance

(INR m)

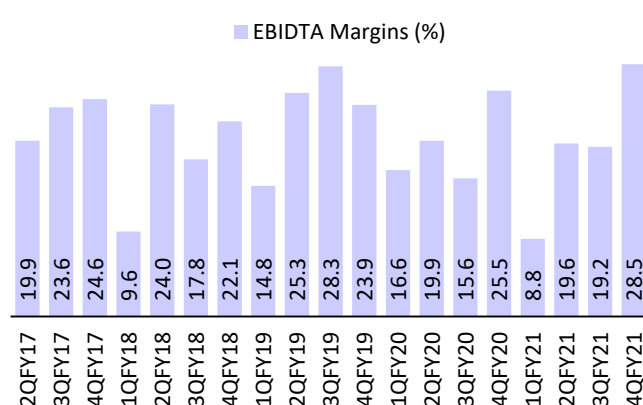
Y/E March	FY20				FY21				FY20	FY21	MOSL 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Sales</b>	<b>21,015</b>	<b>27,427</b>	<b>22,710</b>	<b>58,058</b>	<b>16,706</b>	<b>31,887</b>	<b>22,962</b>	<b>69,083</b>	<b>1,29,211</b>	<b>1,40,638</b>	<b>64,445</b>	<b>7</b>
Change (%)	(0.0)	(18.9)	(16.4)	49.5	(20.5)	16.3	1.1	19.0	6.9	8.8	11.0	
<b>EBITDA</b>	<b>3,481</b>	<b>5,447</b>	<b>3,547</b>	<b>14,826</b>	<b>1,467</b>	<b>6,235</b>	<b>4,404</b>	<b>19,706</b>	<b>27,301</b>	<b>31,811</b>	<b>13,756</b>	<b>43</b>
Change (%)	12.1	(36.2)	(53.8)	59.6	(57.9)	14.5	24.1	32.9	(4.6)	16.5	(7.2)	
As a percentage of sales	16.6	19.9	15.6	25.5	8.8	19.6	19.2	28.5	21.1	22.6	21.3	
Depreciation	828	857	861	950	888	914	945	917	3,496	3,663	1,021	
Interest	3	12	1	16	1	3	2	56	33	61	27	
Other Income	254	150	332	283	184	274	231	572	1,019	1,261	361	
<b>PBT</b>	<b>2,904</b>	<b>4,729</b>	<b>3,017</b>	<b>14,142</b>	<b>762</b>	<b>5,592</b>	<b>3,688</b>	<b>19,305</b>	<b>24,792</b>	<b>29,348</b>	<b>13,068</b>	<b>48</b>
Tax	857	1,334	866	3,797	221	1,622	1,070	5,782	6,853	8,694	3,328	
Effective Tax Rate (%)	29.5	28.2	28.7	26.8	29.0	29.0	29.0	29.9	27.6	29.6	25.5	
<b>Reported PAT</b>	<b>2,047</b>	<b>3,395</b>	<b>2,151</b>	<b>10,345</b>	<b>541</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>17,938</b>	<b>20,654</b>	<b>9,741</b>	<b>39</b>
Change (%)	13.9	(40.6)	(57.6)	54.7	(73.6)	17.0	21.7	30.7	(6.9)	15.1	(5.8)	
<b>Adj. PAT</b>	<b>2,047</b>	<b>3,395</b>	<b>2,151</b>	<b>10,345</b>	<b>541</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>17,938</b>	<b>20,654</b>	<b>9,741</b>	<b>39</b>
Change (%)	<b>13.9</b>	<b>(40.6)</b>	<b>(57.6)</b>	<b>54.7</b>	<b>(73.6)</b>	<b>17.0</b>	<b>21.7</b>	<b>30.7</b>	<b>(6.9)</b>	<b>15.1</b>	<b>(5.8)</b>	

Exhibit 1: Revenue growth strong at 19% YoY in 4QFY21



Source: MOFSL, Company

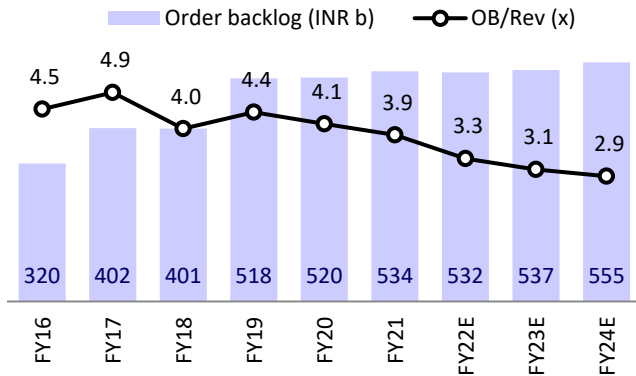
Exhibit 2: EBITDA margin up 300bp YoY to 28.5%



Source: MOFSL, Company

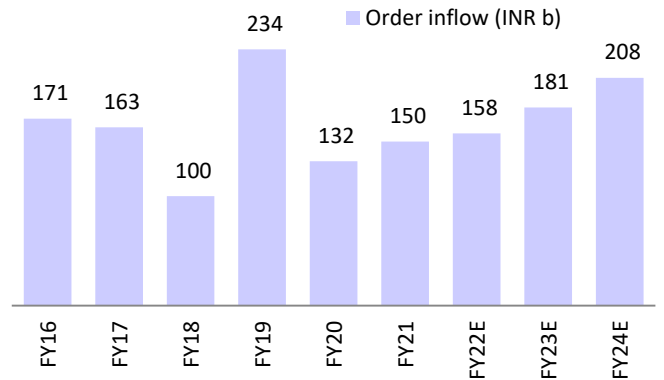
Story in charts

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



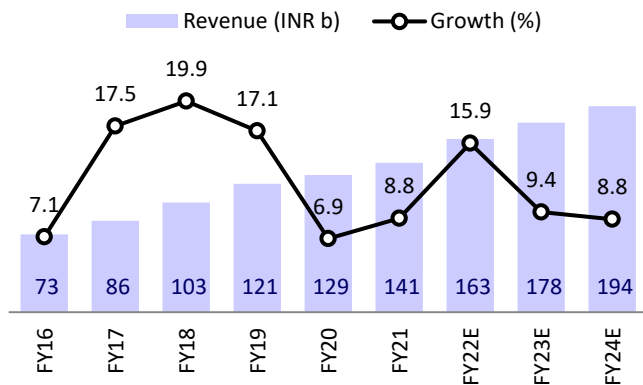
Source: MOFSL, Company

**Exhibit 4: Robust order inflow trend**



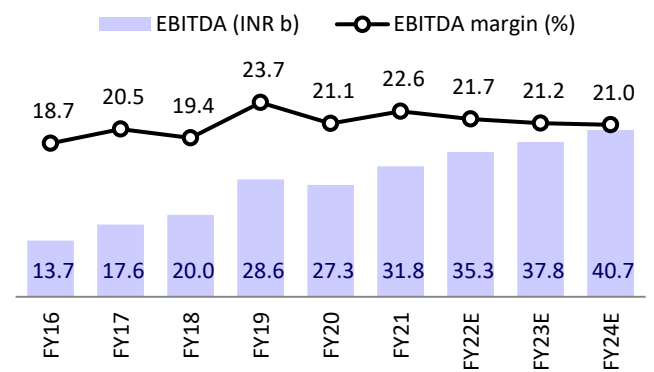
Source: MOFSL, Company

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



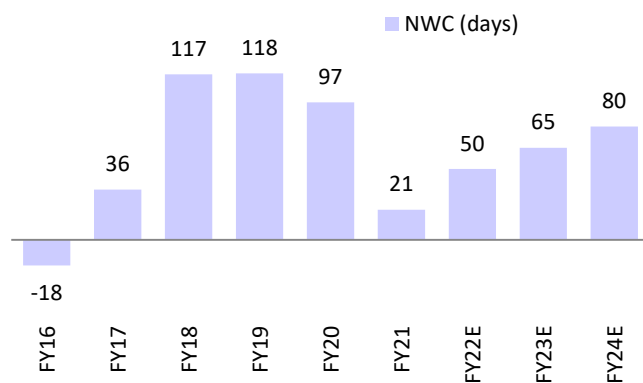
Source: MOFSL, Company

**Exhibit 6: Factor in stable margin of ~9% over FY21-24E**



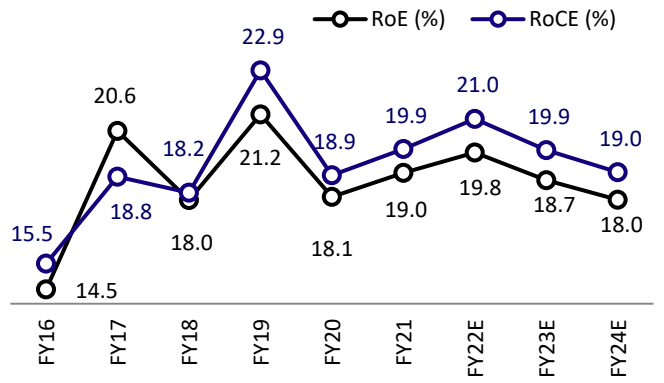
Source: MOFSL, Company

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



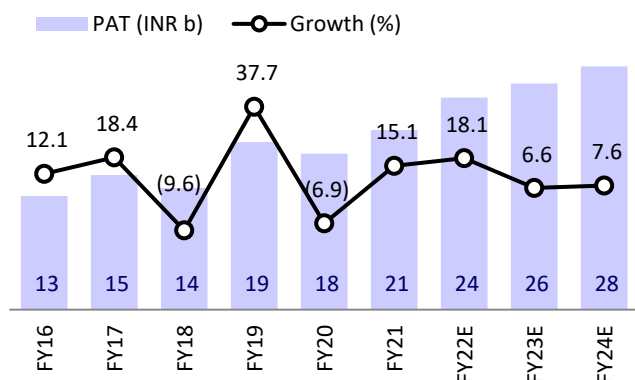
Source: MOFSL, Company

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



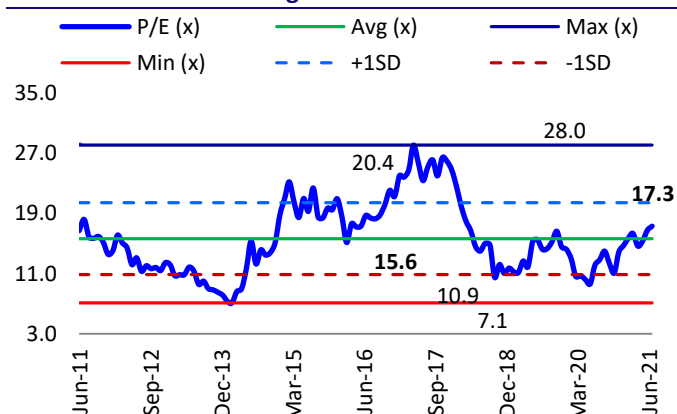
Source: MOFSL, Company

**Exhibit 9: Expect 11% PAT CAGR over FY21-24E**



Source: MOFSL, Company

**Exhibit 10: BHE trades at one-year forward P/E of 17.3x, above its historical average of ~16x**



Source: MOFSL

### Highlights from the management commentary

#### Business update:

- Inventory levels are slightly elevated owing to the expedition of deliverables.
- BHE has collected the highest ever receivables of INR180b in FY21.
- Receivables stand at over INR60b. The management said it will expedite the same in FY22.
- R&D expenses stood at INR8.7b.
- BHE is targeting 15-17% revenue growth in FY22, with a revised EBITDA margin guidance of 21-22% (upward revision in guidance).

#### Order book and order inflow:

- It expects INR150-170b of order inflows in FY22.
- BHE bagged an oxygen concentrator order and is expecting more such orders.
- It expects an order worth INR40-50b for the supply of Akash Missile systems to be awarded soon via Bharat Dynamics (they are integrators).
- It expects Naval orders worth INR30-40b.
- The management expects a QRSAM order to come up in FY23.
- It expects an EVM/VVPAT order worth INR20b before the CY24 elections.
- In the medium term, it expects Civil to grow faster than Defense. It is aiming to have a 75%/25% business mix from Defense/Civil.

#### Execution update:

- BEL has regrouped itself across various segments, which is leading to faster execution.
- The government has brought in various schemes for private participation in the Defense space. This has allowed BEL to partner with a large number of suppliers/vendors.
- Outsourcing has increased and has enabled higher execution as well as lower employee costs for BEL.
- The company has already booked INR20b of LRSAM orders.

**Margin outlook:**

- The management said it has not been impacted by the commodity price inflation as it is continuously adding value through import substitution.
- Import content has been coming down every year.

**Services and exports:**

- It installed a coastal surveillance system in Myanmar in CY17. This is a pure defensive system and doesn't have any attacking capability.
- Exports stood at USD51.81m in FY21. It is targeting exports of over USD60m in FY22. The company has opened many marketing offices overseas and is participating in tenders as and when they come. The current order book stood at INR12b, with an aim to add orders worth USD100m in FY22.
- Contribution from services crossed 10% of revenue in FY21. The same will be between 10% and 12% in FY22 too.

**Other takeaways:**

- The tax rate was higher as BHE migrated to the new tax rate in FY21. Hence FY21 had an impact from re-evaluation of deferred tax.
- It will spend 10% of sales on R&D. In FY21, the same was lower than 7%, but will increase going forward.

**Exhibit 11: Earnings change summary**

Earnings change INR m	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,61,370	1,75,111	1,63,004	1,78,380	1	2
EBITDA	30,974	33,852	35,332	37,774	14	12
EBITDA margin	19.2%	19.3%	21.7%	21.2%	2.5	1.8
Adjusted PAT	20,876	22,899	24,384	26,006	17	14

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 development of new products, d) in-house R&D capabilities (R&D spend over 9% of revenue, with an aim to scale it up to 10%), and e) an increased focus on exports to friendly countries.
- **Strong order book position provides robust revenue visibility:** BHE had a robust order backlog of INR534b as of FY21, translating to an OB/revenue ratio of 3.9x. This offers the company superior revenue visibility.
- **Maintain estimates:** We forecast revenue/EBITDA/PAT CAGR of 11%/9%/11% over FY21-24E. We have built in a sufficient margin cushion as we assume an EBITDA margin of 21.7%/21.2% by FY22E/FY23E (v/s 22.6% reported in FY21).
- **Maintain Buy with a TP of INR150/share:** Given BHE's current order backlog, revenue visibility, and revised margin guidance, we increase our estimates with a TP of INR195/share (18x FY23E EPS). We maintain our **Buy** rating.

## 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>1,63,004</b>	<b>1,78,380</b>	<b>1,93,996</b>
Change (%)	19.9	17.1	6.9	8.8	15.9	9.4	8.8
Raw Materials	60,257	67,002	76,984	84,869	1,01,152	1,11,407	1,21,160
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	4,944	5,214	5,488
<b>EBITDA</b>	<b>19,997</b>	<b>28,621</b>	<b>27,301</b>	<b>31,811</b>	<b>35,332</b>	<b>37,774</b>	<b>40,687</b>
% of Total Revenue	19.4	23.7	21.1	22.6	21.7	21.2	21.0
Depreciation	2,510	3,162	3,496	3,663	4,285	4,760	5,235
Interest	13	122	33	61	61	61	61
Other income	2,004	1,695	1,019	1,261	1,600	1,800	2,000
<b>PBT</b>	<b>19,478</b>	<b>27,032</b>	<b>24,792</b>	<b>29,348</b>	<b>32,586</b>	<b>34,753</b>	<b>37,392</b>
Tax	5,486	7,759	6,853	8,694	8,202	8,747	9,411
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>24,384</b>	<b>26,006</b>	<b>27,980</b>
<b>Reported PAT</b>	<b>13,992</b>	<b>19,273</b>	<b>17,938</b>	<b>20,654</b>	<b>24,384</b>	<b>26,006</b>	<b>27,980</b>
Change (%)	-9.6	37.7	-6.9	15.1	18.1	6.6	7.6

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	1,20,962	1,36,565	1,53,353
<b>Net Worth</b>	<b>77,949</b>	<b>90,830</b>	<b>99,261</b>	<b>1,08,768</b>	<b>1,23,398</b>	<b>1,39,002</b>	<b>1,55,790</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>1,18,765</b>	<b>1,34,368</b>	<b>1,51,156</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	20,732	25,492	30,727
<b>Net Fixed Assets</b>	<b>20,445</b>	<b>25,307</b>	<b>30,030</b>	<b>28,655</b>	<b>29,370</b>	<b>29,611</b>	<b>29,376</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>2,69,977</b>	<b>2,96,663</b>	<b>3,24,017</b>
Inventory	47,755	44,548	39,628	49,547	57,426	62,843	68,344
Debtors	57,046	53,692	40,055	41,869	48,527	53,105	57,754
Cash and Bank Balance	7,387	8,840	15,562	50,085	49,780	55,696	61,955
Loans and Advances	730	729	400	0	0	0	0
Other Assets	34,249	53,864	94,235	98,568	1,14,243	1,25,020	1,35,964
<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>1,97,757</b>	<b>2,09,080</b>	<b>2,19,411</b>
Current Liabilities	94,023	1,00,008	1,25,091	1,64,265	1,77,475	1,86,885	1,95,273
Provisions	12,604	13,796	14,759	17,499	20,282	22,195	24,138
<b>Net Current Assets</b>	<b>40,540</b>	<b>47,868</b>	<b>50,029</b>	<b>58,304</b>	<b>72,220</b>	<b>87,583</b>	<b>1,04,606</b>
<b>Application of Funds</b>	<b>73,971</b>	<b>86,118</b>	<b>94,287</b>	<b>1,04,134</b>	<b>1,18,765</b>	<b>1,34,368</b>	<b>1,51,156</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>10.0</b>	<b>10.7</b>	<b>11.5</b>
Cash EPS	6.8	9.2	8.8	10.0	11.8	12.6	13.6
Book Value	32.0	37.3	40.7	44.6	50.6	57.0	63.9
DPS	2.0	2.1	3.1	3.4	4.0	4.3	4.6
Payout (incl. Div. Tax.)	35	27	42	40	40	40	40
<b>Valuation (x)</b>							
P/E	29.3	21.3	22.9	19.9	16.8	15.8	14.7
Cash P/E	24.9	18.3	19.2	16.9	14.3	13.3	12.4
EV/EBITDA	20.2	14.0	14.5	11.3	10.2	9.4	8.6
EV/Sales	4.0	3.4	3.1	2.6	2.3	2.0	1.8
Price/Book Value	5.3	4.5	4.1	3.8	3.3	3.0	2.6
Dividend Yield (%)	1.2	1.3	1.8	2.0	2.4	2.5	2.7
<b>Profitability Ratios (%)</b>							
RoE	18.0	21.2	18.1	19.0	19.8	18.7	18.0
RoCE	18.2	22.9	18.9	19.9	21.0	19.9	19.0
RoC	32.4	30.8	26.7	39.1	52.4	43.6	39.7
<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	3.2	3.2	3.2
<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	FY24E
							<b>(INR m)</b>
<b>PBT before EO Items</b>	<b>19,478</b>	<b>27,032</b>	<b>24,792</b>	<b>29,348</b>	<b>32,586</b>	<b>34,753</b>	<b>37,392</b>
Depreciation	2,510	3,162	3,496	3,663	4,285	4,760	5,235
Interest and other	-1,434	-69	-292	750	61	61	61
Direct Taxes Paid	6,512	7,669	5,684	5,323	8,202	8,747	9,411
(Inc.)/Dec. in WC	-21,929	-7,796	3,013	22,597	-14,220	-9,447	-10,764
<b>CF from Operations</b>	<b>-7,885</b>	<b>14,660</b>	<b>25,325</b>	<b>51,035</b>	<b>14,510</b>	<b>21,379</b>	<b>22,512</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>9,510</b>	<b>16,379</b>	<b>17,512</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 Networkth	-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	9,754	10,402	11,192
<b>CF from Fin. Activity</b>	<b>-12,006</b>	<b>-6,285</b>	<b>-10,608</b>	<b>-10,754</b>	<b>-9,815</b>	<b>-10,463</b>	<b>-11,253</b>
<b>Inc./Dec. in Cash</b>	<b>-30,515</b>	<b>1,453</b>	<b>6,722</b>	<b>34,522</b>	<b>-305</b>	<b>5,916</b>	<b>6,259</b>
Add: Beginning Balance	37,902	7,387	8,840	15,562	50,085	49,780	55,696
<b>Closing Balance</b>	<b>7,387</b>	<b>8,840</b>	<b>15,562</b>	<b>50,085</b>	<b>49,780</b>	<b>55,696</b>	<b>61,955</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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