

October 20, 2022

Event Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	125		98	
Sales (Rs. m)	2,11,409	2,42,484	2,11,409	2,42,484
% Chng.	-	-	-	-
EBITDA (Rs. m)	46,611	53,807	46,611	53,807
% Chng.	-	-	-	-
EPS (Rs.)	4.7	5.4	4.7	5.4
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,53,138	1,80,136	2,11,409	2,42,484
EBITDA (Rs. m)	33,092	39,522	46,611	53,807
Margin (%)	21.6	21.9	22.0	22.2
PAT (Rs. m)	23,489	28,629	34,240	39,724
EPS (Rs.)	3.2	3.9	4.7	5.4
Gr. (%)	13.7	21.9	19.6	16.0
DPS (Rs.)	1.5	1.9	2.2	2.6
Yield (%)	1.4	1.8	2.1	2.5
RoE (%)	20.6	22.5	23.8	24.4
RoCE (%)	25.7	27.6	29.2	30.0
EV/Sales (x)	4.6	3.8	3.2	2.7
EV/EBITDA (x)	21.1	17.3	14.5	12.4
PE (x)	33.0	27.0	22.6	19.5
P/BV (x)	6.5	5.7	5.1	4.5

Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.115 / Rs.61
Sensex / Nifty	59,107 / 17,512
Market Cap	Rs.774bn/ \$ 9,324m
Shares Outstanding	7,310m
3M Avg. Daily Value	Rs.2714.11m

Shareholding Pattern (%)

Promoter's	51.14
Foreign	16.77
Domestic Institution	26.71
Public & Others	5.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.2)	26.9	53.6
Relative	(4.1)	21.2	60.4

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Bharat Electronics (BHE IN)

Rating: BUY | CMP: Rs106 | TP: Rs125

Non-Defence diversification gathering pace

Quick Pointers:

- BEL has signed an MoU with Triton Electric Vehicle (TEV) for manufacturing Hydrogen Fuel cells with technology transfer from TEV.
- BEL bagged order worth Rs80.6bn from Triton Electric Vehicle India Pvt Ltd. for supplying Li-Ion Battery Packs.

With the recent MoU in EV space, BEL is moving towards its strategy of diversifying into non-defence space (that accounts for ~10% of total revenue; management targets for 25% in long run) likely to be value accretive for the company in long run. We reiterate our positive stance on long term growth story of BEL given 1) its strong order backlog, 2) order pipeline and 3) diversification in newer business verticals like EV battery, medical equipments, hydrogen fuel cell, metro, focus on export markets, government focus on product indigenization etc. We expect BEL to report revenue and PAT CAGR of 16.6%/19.1% from FY22 to FY25E. The stock is currently trading at PE of 27.0x/22.6x/19.5x FY23/24/25E. We roll forward our TP to FY25E with revised TP of Rs125 (Rs98 earlier) valuing it at 23x FY25E EPS. Maintain 'Buy' rating.

MoU signed for manufacturing of Hydrogen Fuel cell: BEL recently signed a MoU with TEV for manufacturing hydrogen fuel cell and technology transfer from TEV, which will target domestic markets and mutually agreed export markets. The MoU aims at tapping demand for clean energy solutions for various applications including for E- Mobility, by leveraging Government of India's thrust for adoption of clean energy fuels for applications in transport, energy storage etc. We believe MoU is likely to benefit BEL in long run for tapping the opportunity arising from energy transition (such as use of hydrogen).

Order for supply of battery packs for electrical vehicle: Additionally, BEL has bagged an order from Triton Electric Vehicle India Pvt Ltd. for supply of 300 KW Li-Ion Battery Packs for its Semi-truck project in India at an estimated value of Rs80.6bn. The battery packs will be manufactured in Pune units and are expected to be delivered in 24 months commencing from Jan-23. TEV has handed purchase order for first-off quantity with 100% advance payment and BEL will deliver the first-off quantity by Nov-22.

Triton Electric Vehicle (TEV): TEV is an electric vehicle company headquartered in USA. The company has recently forayed into Hydrogen run vehicles and has started the journey of manufacturing Hydrogen-run Two-Wheelers, Three-Wheelers and Buses. Company has recently set up its R&D centre and manufacturing facility in India with best-in-class infrastructure. Triton Electric Vehicle India Pvt Ltd. is a part of Triton electric Vehicle LLS, USA.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,53,138	1,80,136	2,11,409	2,42,484
YoY gr. (%)	8.9	17.6	17.4	14.7
Cost of Goods Sold	89,025	1,04,479	1,22,617	1,39,186
Gross Profit	64,113	75,657	88,792	1,03,298
Margin (%)	41.9	42.0	42.0	42.6
Employee Cost	21,094	22,571	24,143	27,643
Other Expenses	6,809	9,403	12,520	14,792
EBITDA	33,092	39,522	46,611	53,807
YoY gr. (%)	4.0	19.4	17.9	15.4
Margin (%)	21.6	21.9	22.0	22.2
Depreciation and Amortization	3,802	4,406	4,604	5,030
EBIT	29,291	35,116	42,008	48,778
Margin (%)	19.1	19.5	19.9	20.1
Net Interest	49	51	53	56
Other Income	2,336	3,107	3,700	4,243
Profit Before Tax	31,578	38,173	45,654	52,965
Margin (%)	20.6	21.2	21.6	21.8
Total Tax	8,089	9,543	11,413	13,241
Effective tax rate (%)	25.6	25.0	25.0	25.0
Profit after tax	23,489	28,629	34,240	39,724
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	23,489	28,629	34,240	39,724
YoY gr. (%)	13.7	21.9	19.6	16.0
Margin (%)	15.3	15.9	16.2	16.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	23,489	28,629	34,240	39,724
YoY gr. (%)	13.7	21.9	19.6	16.0
Margin (%)	15.3	15.9	16.2	16.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,489	28,629	34,240	39,724
Equity Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	3.2	3.9	4.7	5.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	44,353	51,853	61,853	71,853
Tangibles	44,353	51,853	61,853	71,853
Intangibles	-	-	-	-
Acc: Dep / Amortization	19,808	24,214	28,817	33,847
Tangibles	19,808	24,214	28,817	33,847
Intangibles	-	-	-	-
Net fixed assets	24,545	27,639	33,036	38,006
Tangibles	24,545	27,639	33,036	38,006
Intangibles	-	-	-	-
Capital Work In Progress	9,281	9,281	9,281	9,281
Goodwill	-	-	-	-
Non-Current Investments	15,843	22,337	30,443	34,918
Net Deferred tax assets	6,207	6,207	6,207	6,207
Other Non-Current Assets	6,778	6,845	6,976	7,275
Current Assets				
Investments	-	-	-	-
Inventories	55,669	64,158	72,400	79,721
Trade receivables	61,034	81,431	92,672	1,02,973
Cash & Bank Balance	74,991	89,363	97,647	1,08,383
Other Current Assets	79,113	79,260	82,449	87,294
Total Assets	3,28,292	3,81,702	4,26,385	4,69,427
Equity				
Equity Share Capital	2,437	7,310	7,310	7,310
Other Equity	1,17,406	1,27,420	1,45,225	1,65,881
Total Network	1,19,843	1,34,730	1,52,535	1,73,191
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	33,663	39,482	45,178	49,826
Other current liabilities	1,80,994	2,13,697	2,34,879	2,52,617
Total Equity & Liabilities	3,28,292	3,81,702	4,26,385	4,69,427

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	31,578	38,173	45,654	52,965
Add. Depreciation	3,802	4,406	4,604	5,030
Add. Interest	49	51	53	56
Less Financial Other Income	2,336	3,107	3,700	4,243
Add. Other	(1,290)	-	-	-
Op. profit before WC changes	34,139	42,629	50,311	58,051
Net Changes-WC	15,498	8,652	3,856	(599)
Direct tax	(8,024)	(9,543)	(11,413)	(13,241)
Net cash from Op. activities	41,612	41,739	42,754	44,211
Capital expenditures	(5,461)	(13,574)	(17,981)	(14,351)
Interest / Dividend Income	1,778	-	-	-
Others	(44,923)	-	-	-
Net Cash from Invt. activities	(48,606)	(13,574)	(17,981)	(14,351)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(10,233)	(13,742)	(16,435)	(19,067)
Interest paid	(18)	(51)	(53)	(56)
Others	(521)	-	-	-
Net cash from Fin. activities	(10,772)	(13,793)	(16,489)	(19,123)
Net change in cash	(17,766)	14,372	8,284	10,737
Free Cash Flow	36,077	34,239	32,754	34,211

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	3.2	3.9	4.7	5.4
CEPS	3.7	4.5	5.3	6.1
BVPS	16.4	18.4	20.9	23.7
FCF	4.9	4.7	4.5	4.7
DPS	1.5	1.9	2.2	2.6
Return Ratio(%)				
RoCE	25.7	27.6	29.2	30.0
ROIC	55.9	69.4	68.5	67.2
RoE	20.6	22.5	23.8	24.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.7)	(0.6)	(0.6)
Net Working Capital (Days)	198	215	207	200
Valuation(x)				
PER	33.0	27.0	22.6	19.5
P/B	6.5	5.7	5.1	4.5
P/CEPS	28.4	23.4	19.9	17.3
EV/EBITDA	21.1	17.3	14.5	12.4
EV/Sales	4.6	3.8	3.2	2.7
Dividend Yield (%)	1.4	1.8	2.1	2.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	36,606	36,937	63,249	31,128
YoY gr. (%)	14.8	60.9	(8.4)	90.4
Raw Material Expenses	20,666	22,002	36,811	18,085
Gross Profit	15,939	14,935	26,439	13,043
Margin (%)	43.5	40.4	41.8	41.9
EBITDA	8,565	8,221	15,678	5,135
YoY gr. (%)	37.4	86.7	(20.4)	716.8
Margin (%)	23.4	22.3	24.8	16.5
Depreciation / Depletion	941	929	1,010	941
EBIT	7,623	7,292	14,668	4,194
Margin (%)	20.8	19.7	23.2	13.5
Net Interest	5	2	41	10
Other Income	659	593	638	1,597
Profit before Tax	8,277	7,883	15,266	5,781
Margin (%)	22.6	21.3	24.1	18.6
Total Tax	2,151	2,050	3,848	1,466
Effective tax rate (%)	26.0	26.0	25.2	25.4
Profit after Tax	6,126	5,834	11,418	4,315
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,126	5,834	11,418	4,315
YoY gr. (%)	54.3	122.8	(15.6)	3,769.9
Margin (%)	16.7	15.8	18.1	13.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,126	5,834	11,418	4,315
YoY gr. (%)	54.3	122.8	(15.6)	3,769.9
Margin (%)	16.7	15.8	18.1	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,126	5,834	11,418	4,315
Avg. Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	0.8	0.8	1.6	0.6

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	BUY	98	102
2	21-Jul-22	BUY	295	269
3	18-Jul-22	BUY	285	246
4	05-Jul-22	BUY	265	230
5	24-May-22	BUY	265	232
6	08-Apr-22	BUY	258	234
7	01-Feb-22	BUY	265	210
8	11-Jan-22	BUY	245	211

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,115	3,100
2	Apar Industries	UR	-	1,445
3	Bharat Electronics	BUY	98	102
4	BHEL	Sell	36	62
5	Cummins India	Accumulate	1,296	1,214
6	Engineers India	BUY	89	65
7	GE T&D India	Hold	102	129
8	Kalpataru Power Transmission	BUY	442	419
9	KEC International	Accumulate	473	440
10	Larsen & Toubro	BUY	2,030	1,873
11	Praj Industries	BUY	507	415
12	Siemens	Accumulate	3,116	2,750
13	Thermax	Accumulate	2,190	2,199
14	Triveni Turbine	UR	-	268
15	Voltamp Transformers	Hold	2,748	2,616

PL's Recommendation Nomenclature (Absolute Performance)

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

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