

February 2, 2023

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	125		125	
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 (%)	1.6	2.0	2.4	2.8
RoE (%)	20.6	22.5	23.8	24.4
RoCE (%)	25.7	27.6	29.2	30.0
EV/Sales (x)	4.0	3.3	2.8	2.4
EV/EBITDA (x)	18.3	15.0	12.5	10.6
PE (x)	29.0	23.8	19.9	17.1
P/BV (x)	5.7	5.1	4.5	3.9

Key Data

[BAJE.BO](#) | [BHE IN](#)

52-W High / Low	Rs.115 / Rs.62
Sensex / Nifty	59,932 / 17,610
Market Cap	Rs.681bn / \$ 8,281m
Shares Outstanding	7,310m
3M Avg. Daily Value	Rs.1757.69m

Shareholding Pattern (%)

Promoter's	51.14
Foreign	17.34
Domestic Institution	25.05
Public & Others	6.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.1)	(1.0)	32.5
Relative	(5.2)	(3.9)	31.7

Amit Anwani

amitanwani@plindia.com | 91-22-66322250

Nilesh Soni

nileshsoni@plindia.com | 91-22-66322214

Bharat Electronics (BHE IN)

Rating: BUY | CMP: Rs93 | TP: Rs125

Strong outlook continues; order inflows on track

We recently attended Q3FY23 analyst call scheduled by Bharat Electronics (BEL), wherein the management sounded confident in meeting its FY23 order inflow guidance of Rs180-200bn (despite lower order inflows of ~Rs36bn in 9MFY23), factoring in orders worth Rs110-120bn already being finalized. BEL's order pipeline remains healthy for next two years with large orders expected in defence segment such as QRSAM, LRSAM, naval systems etc. and in non-defence segment such as Air Traffic Management System-ATMS, Homeland security, Batteries etc. For FY23 management guided revenue growth of ~15% with EBITDA margin of ~20-22%.

We remain positive on long term growth story of BEL given 1) strong order backlog & order pipeline 2) diversification in newer business verticals like, hydrogen fuel cell, EV batteries, ATMS etc., 3) focus on export markets (Egypt, Malaysia etc.) and 4) government emphasis towards product indigenization. The stock is currently trading at PE of 23.8x/19.9x/17.1x FY23/24/25E. Maintain 'BUY' with TP of Rs125 (same as earlier) valuing it at 23x FY25E EPS.

Conference Call Highlights:

FY23 order inflows to meet guidance of Rs180-200bn (~Rs36bn in 9MFY23), with key orders likely to be finalized in Q4FY23, such as Himshakti (Rs33bn), Akash Prime (Rs30bn), Rudra Radar, EW suits (Rs8bn) and fire control system (Rs18bn). Order worth ~Rs100-120bn has been finalized and expects to be awarded before Mar-23.

MoU signed within non-defence segment: BEL recently signed an MoU in non-defence segment which includes 1) Airport authority of India for ATMS and airport surveillance radar and 2) Delhi Metro for indigenization of imported equipment. On exports front, BEL plans to foray into markets such as Egypt and Malaysia etc.

Capex of Rs6bn lined up for FY23: Capex likely to be ~Rs6bn for FY23 and Rs6-8bn for FY24. Capex to be towards, high vision equipment factory at Nimmaluru- (Rs3.4bn), expansion for land based system at Ibrahimpatnam, land for arms & ammunition at Nagpur and super component test facility at Hyderabad (Rs1bn).

Order book stands healthy at Rs501bn: Of the total order book, defence accounts for ~80%. It is expected to remain at ~75-80% from defence for next 4-5 years. EVM current order book stands at Rs14bn including Rs1.4bn order bagged recently.

Management is confident to achieve 15-20% revenue growth for next couple of years, given 1) strong order pipeline, 2) growth in defence segment, 3) diversification in non-defence segment and 4) strong focus on exports market (Egypt, Malaysia etc.).

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

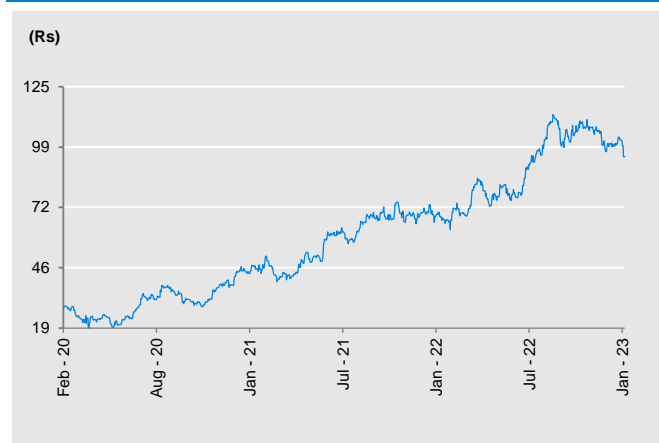
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	3.2	3.9	4.7	5.4
CEPS	3.7	4.5	5.3	6.1
BVPS	16.4	18.4	20.9	23.7
FCF	4.9	4.7	4.5	4.7
DPS	1.5	1.9	2.2	2.6
Return Ratio(%)				
RoCE	25.7	27.6	29.2	30.0
ROIC	55.9	69.4	68.5	67.2
RoE	20.6	22.5	23.8	24.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.7)	(0.6)	(0.6)
Net Working Capital (Days)	198	215	207	200
Valuation(x)				
PER	29.0	23.8	19.9	17.1
P/B	5.7	5.1	4.5	3.9
P/CEPS	24.9	20.6	17.5	15.2
EV/EBITDA	18.3	15.0	12.5	10.6
EV/Sales	4.0	3.3	2.8	2.4
Dividend Yield (%)	1.6	2.0	2.4	2.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	63,249	31,128	39,458	41,310
YoY gr. (%)	(8.4)	90.4	7.8	11.8
Raw Material Expenses	36,811	18,085	22,383	24,157
Gross Profit	26,439	13,043	17,076	17,153
Margin (%)	41.8	41.9	43.3	41.5
EBITDA	15,678	5,135	8,558	8,535
YoY gr. (%)	(20.4)	716.8	(0.1)	3.8
Margin (%)	24.8	16.5	21.7	20.7
Depreciation / Depletion	1,010	941	1,042	1,008
EBIT	14,668	4,194	7,516	7,527
Margin (%)	23.2	13.5	19.0	18.2
Net Interest	41	10	17	97
Other Income	638	1,597	750	575
Profit before Tax	15,266	5,781	8,249	8,004
Margin (%)	24.1	18.6	20.9	19.4
Total Tax	3,848	1,466	2,138	2,017
Effective tax rate (%)	25.2	25.4	25.9	25.2
Profit after Tax	11,418	4,315	6,111	5,988
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	11,418	4,315	6,111	5,988
YoY gr. (%)	(15.6)	3,769.9	(0.3)	2.6
Margin (%)	18.1	13.9	15.5	14.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,418	4,315	6,111	5,988
YoY gr. (%)	(15.6)	3,769.9	(0.3)	2.6
Margin (%)	18.1	13.9	15.5	14.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,418	4,315	6,111	5,988
Avg. Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	1.6	0.6	0.8	0.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	30-Jan-23	BUY	125	94
2	04-Jan-23	BUY	125	100
3	16-Nov-22	BUY	125	107
4	08-Nov-22	BUY	125	110
5	31-Oct-22	BUY	125	107
6	27-Oct-22	BUY	125	108
7	20-Oct-22	BUY	125	106
8	04-Oct-22	BUY	98	102
9	21-Jul-22	BUY	295	269
10	18-Jul-22	BUY	285	246

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,291	2,689
2	Apar Industries	BUY	2,260	1,687
3	Bharat Electronics	BUY	125	94
4	BHEL	Sell	36	80
5	Cummins India	Accumulate	1,514	1,396
6	Engineers India	BUY	89	80
7	GE T&D India	Hold	102	116
8	Kalpataru Power Transmission	Accumulate	549	570
9	KEC International	Accumulate	500	457
10	Larsen & Toubro	BUY	2,481	2,113
11	Praj Industries	BUY	520	367
12	Siemens	Accumulate	3,290	2,837
13	Thermax	Accumulate	2,556	1,956
14	Triveni Turbine	BUY	340	276
15	Voltamp Transformers	Hold	3,150	2,691

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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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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