

## Decent performance amid challenges..

**About the stock:** Bharat Electronics (BEL) is a leading aerospace and defence electronics company. It primarily manufactures advance electronics products.

- Multi-product, multi-technology- diverse product range including radar, missile systems, electronic warfare & avionics, anti-submarine warfare, electro-optics, home land security, civilian products, etc
- Focus to increase non-defence share to ~20-25% over two to three years

**Q2FY22 Results:** BEL reported decent Q2FY22 results amid supply disruptions.

- Revenue at ₹ 3660.5 crore, up 14.8% YoY amid pandemic restriction
- EBITDA came in at ₹ 856.4 crore, up 37.4% YoY with EBITDA margin of 23.4% improving 380 bps YoY, amid better revenue booking
- Consequently, PAT came in at ₹ 612.6 crore, up 54.3% YoY basis
- Order inflows for H1FY22 came in at ~₹ 3760 crore

**What should investors do?** Overall, expected double digit revenue, order inflow growth, sustained margins and strong order book to ensure better performance

- We remain long term positive and retain our BUY rating on the stock

**Target Price and Valuation:** We value BEL at ₹ 250 i.e. 22x P/E on FY23E EPS

**Key triggers for future price performance:**

- Strategy to diversify into non-defence areas, focus on increasing exports and services share would aid long term growth and help de-risk its business
- Strong order inflow guidance of ₹ 15000-17000 crore for FY22E
- We expect revenue, EBITDA to grow at CAGR of ~14.6%, 11.9%, respectively, in FY21-23E aided by sustained margins in range of 20-22%
- Strong balance sheet, double digit returns ratios

**Alternate Stock Idea:** We also like Siemens Ltd in our coverage.

- Further penetration of value added automation and digitisation products & services across segments to drive margins, long term growth
- BUY with target price of ₹ 2550



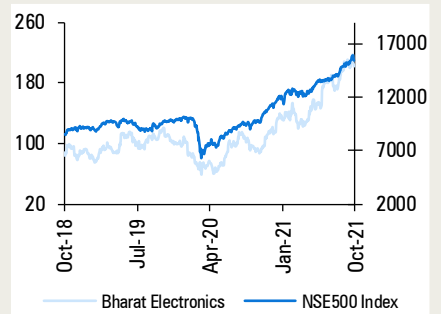
### Particulars

Particular	Amount
Market Capitalization	₹ 50437 Crore
Total Debt (FY21)	₹ 7.9 Crore
Cash and Inv (FY21)	₹ 3015.6 crore
EV (FY21)	₹ 47430 Crore
52 week H/L (₹) (BSE)	221 / 86
Equity capital	₹ 243.7 Crore
Face value	₹ 1

### Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	51.1	51.1	51.1	51.1
FII	10.3	11.6	14.1	15.7
DII	31.3	30.2	28.9	28.3
Others	7.3	7.1	5.9	4.8

### Price Performance



### Recent Events & Key Risks

- (i) Muted order inflows and execution delays (ii) Deferral of receivables payments to defence PSUs

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues	12,085	12,921	14,064	14.1%	16,298	18,463	14.6
EBITDA	2,862	2,730	3,181	16.8%	3,450	3,986	11.9
EBITDA margin (%)	23.7	21.1	22.6		21.2	21.6	
Net Profit	1,927	1,794	2,065	8.8%	2,348	2,747.3	15.3
EPS (₹)	7.9	7.4	8.5		9.6	11.3	
P/E (x)	26.2	28.1	24.4		21.5	18.4	
EV/EBITDA (x)	17.4	17.9	14.9		13.6	11.6	
RoCE (%)	30.0	25.1	27.2		27.0	28.7	
RoE (%)	21.4	18.2	19.1		19.9	21.4	

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Decent performance, better margins...

- BEL reported revenues at ₹ 3660.5 crore, up 14.8% YoY (vs. I-direct estimate of ₹ 3911.9 crore)
- Absolute EBITDA for the quarter came in at ₹ 856.4 crore (in line with our estimate of ₹ 856.4 crore), up 37.4% YoY. While EBITDA margin came at 23.4%, which was above our estimate of 21.9%. Gross margins for Q2FY22 were at 42.9% vs. 39% in Q1FY22. Key impact on margins came in from lower than expected other expenses that came in at ₹ 204.8 crore vs. estimates of ₹ 345 crore
- Consequently, PAT came in at ₹ 612.6 crore, up 54.3% primarily on account of better EBITDA and higher other income which came in at ₹ 65.9 crore
- Overall, BEL's order book was at ₹ 54627 crore as on Q2FY22

**Exhibit 1: Variance Analysis**

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Operating Income	3,660.5	3,911.6	3,188.6	14.8	1,635	123.9	Execution bounced back strongly post dismal show in Q1FY22
Other income	65.9	40.0	27.4	140.3	45	47.5	
Total Revenue	3,726.4	3,951.6	3,216.0	15.9	1,679.3	121.9	
Raw materials costs	2,066.6	2,169.7	1,754.0	17.8	955	116.5	
Employees Expenses	532.7	540.5	496.9	7.2	495	7.6	
Other Expenses	204.8	345.0	314.3	-34.8	122	67.8	
Total Expenditure	2,804.1	3,055.2	2,565.2	9.3	1,572	78.4	
EBITDA	856.4	856.4	623.4	37.4	62.9	1,262.4	
EBITDA margins (%)	23.4	21.9	19.6	384 bps	3.8	1955 bps	Strong margins due to higher revenue booking, better gross margins
Interest	0.5	1.0	0.3		0.1		
Depreciation	94.1	97.0	91.4	3.0	92.2	2.1	
Tax	215.1	223.6	162.2	32.7	4.0	5,251.7	
PAT	612.6	574.9	397.0	54.3	11.2	5,393.9	

Source: Company, ICICI Direct Research

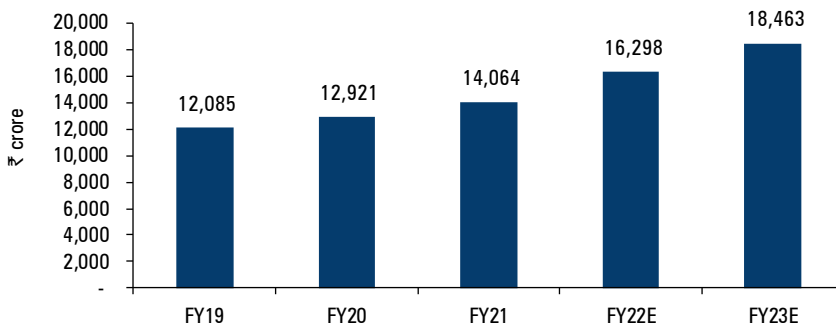
**Exhibit 2: Change in estimates**

	FY20	FY21	FY22E			FY23E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	12,921	14,064	16,298	16,298	0.0	18,463	18,463	0.0
EBITDA	2,730	3,181	3,450	3,450	0.0	3,986	3,986	0.0
EBITDA Margin (%)	21.1	22.6	21.2	21.2	-3 bps	21.6	21.6	-1 bps
PAT	1,794	2,065	2,348	2,348	0.0	2,747	2,747	0.0
EPS (₹)	7.4	8.5	9.6	9.6	0.4	11.3	11.3	-0.2

Source: Company, ICICI Direct Research

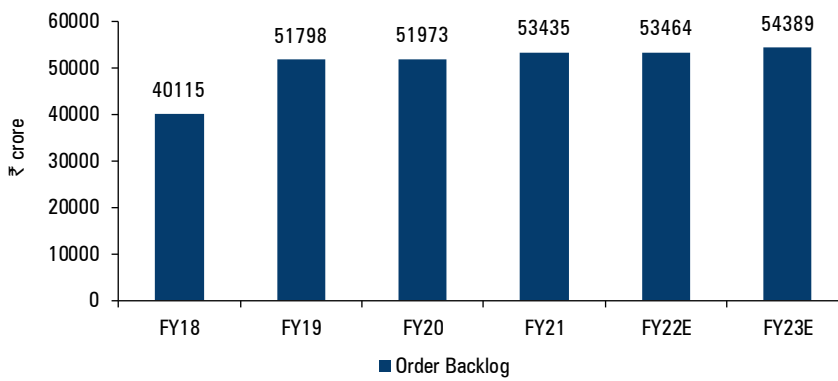
### Financial story in charts

Exhibit 3: Revenue trend



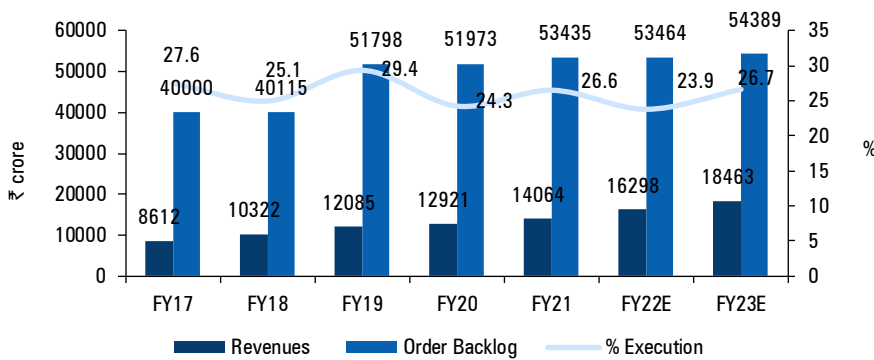
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



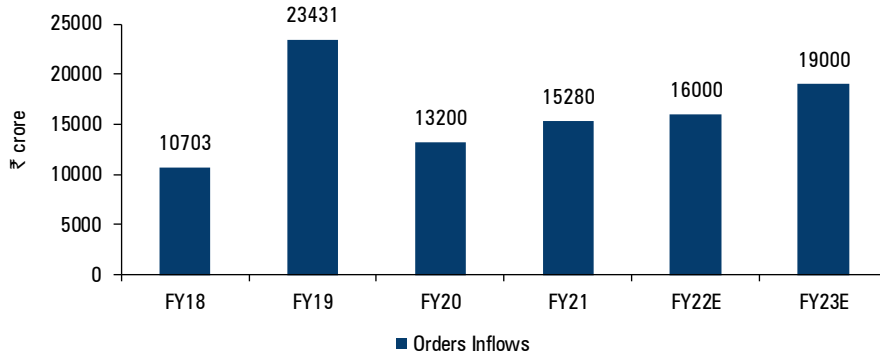
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



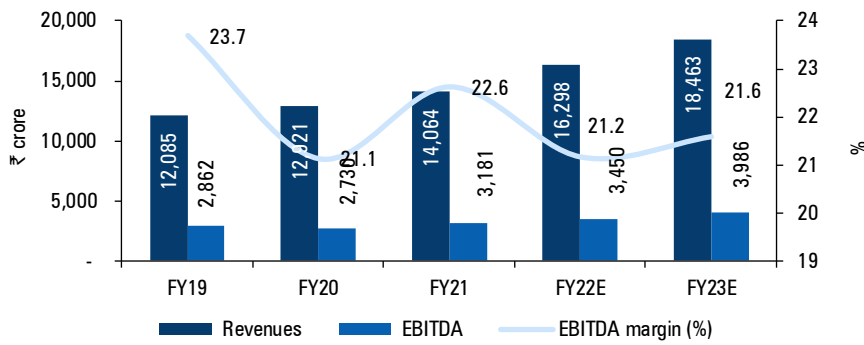
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



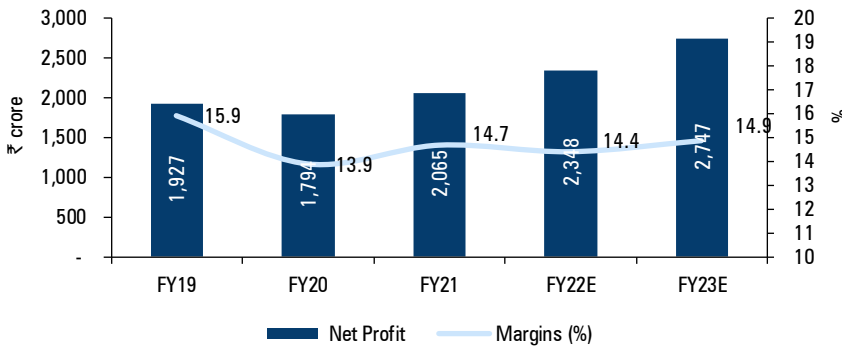
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



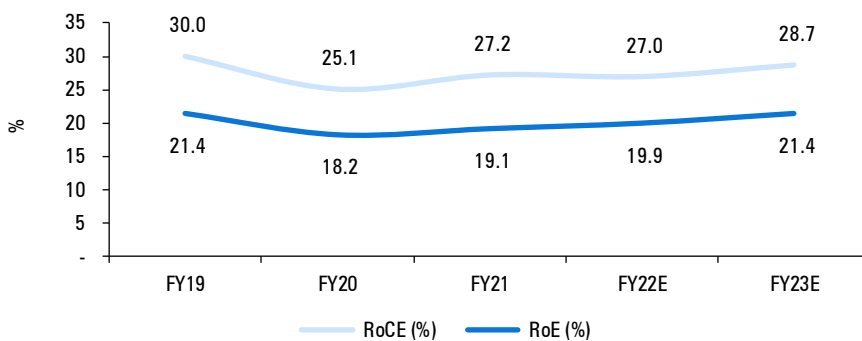
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	12,608	13,818	15,971	18,075
Other operating income	313	246	327	389
Revenue	12,921	14,064	16,298	18,463
% Growth		8.8	15.9	13.3
Other income	101.9	126.1	160.0	178.0
Total Revenue	13,023	14,199	16,298	18,463
% Growth		9.0	14.8	13.3
Total Raw Material Costs	7,105	7,828	9,231	10,483
Employee Expenses	2,058	1,941	2,132	2,296
other expenses	1,028	1,114	1,485	1,699
Total Operating Expenditure	10,191	10,883	12,849	14,478
Operating Profit (EBITDA)	2,730	3,181	3,450	3,986
% Growth		16.5	8.4	15.5
Interest	3	6	5	5
PBDT	2,829	3,301	3,605	4,159
Depreciation	350	366	432	471
PBT before Exceptional Items	2,479	2,935	3,173	3,688
Total Tax	685	869	825	940
PAT before MI	1,794	2,065	2,348	2,747
Minority Interest	-	-	-	-
PAT	1,794	2,065	2,348	2,747
% Growth		15.1	13.7	17.0
EPS	7.4	8.5	9.6	11.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	1,794	2,065	2,348	2,747
Depreciation	350	366	432	471
Interest	3	6	5	5
Cash Flow before WC changes	2,147	2,438	2,785	3,223
Changes in inventory	492	(992)	(314)	(599)
Changes in debtors	(1,364)	181	(772)	(922)
Changes in loans & Advances	178	(280)	-	-
Changes in other current assets	(1,408)	(561)	(468)	(573)
Net Increase in Current Assets	(2,130)	(1,518)	(1,554)	(2,094)
Changes in creditors	994	942	64	222
Changes in provisions	96	274	176	100
Net Inc in Current Liabilities	2,591	4,234	1,276	1,891
Net CF from Operating activities	2,608	5,153	2,507	3,020
Changes in deferred tax assets	(26)	34	-	-
(Purchase)/Sale of Fixed Assets	(746)	(380)	(650)	(750)
Net CF from Investing activities	(829)	(2,536)	(650)	(750)
Dividend and Dividend Tax	(910)	(1,023)	(1,329)	(1,614)
Net CF from Financing Activities	(944)	(1,158)	(1,381)	(1,673)
Net Cash flow	834	1,459	477	597
Opening Cash/Cash Equivalent	722	1,556	3,016	3,492
Closing Cash/ Cash Equivalent	1,556	3,016	3,492	4,089

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21P	FY22E	FY23E
Profit after Tax	1,794	2,065	2,324	2,637
Depreciation	350	366	432	476
Interest	3	6	5	5
Cash Flow before WC changes	2,147	2,438	2,761	3,118
Changes in inventory	492	(992)	(270)	(274)
Changes in debtors	(1,364)	(587)	(1,075)	(803)
Changes in loans & Advances	178	(291)	-	-
Changes in other current assets	(1,408)	(1,331)	(89)	(17)
Net Increase in Current Assets	(2,130)	(3,221)	(1,434)	(1,093)
Changes in creditors	994	218	430	284
Changes in provisions	96	117	134	146
Net Inc in Current Liabilities	2,591	3,435	1,111	488
Net CF from Operating activities	2,608	2,652	2,439	2,513
Changes in deferred tax assets	(26)	34	-	-
(Purchase)/Sale of Fixed Assets	(746)	(346)	(700)	(750)
Net CF from Investing activities	(829)	(540)	(700)	(750)
Dividend and Dividend Tax	(910)	(1,169)	(1,315)	(1,492)
Net CF from Financing Activities	(944)	(1,117)	(1,385)	(1,550)
Net Cash flow	834	995	354	213
Opening Cash/Cash Equivalent	722	1,556	2,552	2,905
Closing Cash/ Cash Equivalent	1,556	2,552	2,905	3,118

\*calculated, Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	7.4	8.5	9.6	11.3
Cash per Share	6.4	12.4	14.3	16.8
BV	40.4	44.4	48.3	52.8
Dividend per share	3.1	3.5	4.5	5.5
Dividend payout ratio	0.4	0.4	0.5	0.5
EBITDA Margin	21.1	22.6	21.2	21.6
PAT Margin	14.2	14.9	14.7	15.2
RoE	18.2	19.1	19.9	21.4
RoCE	25.1	27.2	27.0	28.7
RoC	28.5	36.1	36.4	40.0
EV / EBITDA	17.9	14.9	13.6	11.6
P/E	28.1	24.4	21.5	18.4
EV / Net Sales	3.8	3.4	2.9	2.5
Sales / Equity	1.3	1.3	1.4	1.4
Market Cap / Sales	3.9	3.6	3.1	2.7
Price to Book Value	5.1	4.7	4.3	3.9
Asset turnover	1.3	1.3	1.4	1.4
Debtors Turnover Ratio	2.1	2.1	2.3	2.4
Creditors Turnover Ratio	6.2	4.6	4.6	5.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	3.1	3.2	3.4
Quick Ratio	2.7	2.2	2.4	2.5

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (Capital Goods)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1776	2,150	Buy	249208	81.9	51.9	52.9	21.7	34.2	33.5	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2199	2,550	Buy	78311	28.3	37.9	45.1	77.8	58.0	48.8	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1923	2,230	Buy	18138	59.7	60.4	69.7	32.2	31.8	27.6	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1390	1,680	Buy	16563	17.3	26.8	40.0	80.2	51.8	34.8	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	418	550	Buy	6467	41.3	33.9	42.0	10.1	12.3	10.0	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	480	550	Buy	12341	21.5	19.9	32.3	22.3	24.1	14.8	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	134	150	Hold	3098	0.4	2.4	5.4	299.0	54.8	24.9	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	199	260	Buy	6306	3.2	3.9	6.2	61.5	50.8	32.3	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	207	250	Buy	50437	8.5	9.6	11.3	24.4	21.5	18.4	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	350	500	Buy	4760	46.4	44.0	55.6	7.5	8.0	6.3	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3321	3,300	Buy	17601	67.6	78.1	98.9	49.1	42.5	33.6	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1806	1,740	Hold	11558	19.0	28.2	36.3	94.9	64.0	49.8	13.7	18.3	23.5	10.7	14.0	18.0
NRB Bearing (NRBBEA)	129	175	Buy	1251	5.6	8.0	9.8	23.0	16.1	13.2	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	235	300	Buy	2656	7.1	9.4	13.7	33.1	25.0	17.2	26.9	25.8	30.7	15.3	17.1	20.3

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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