

February 1, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	265		245	
Sales (Rs. m)	184,640	216,260	192,894	225,601
% Chng.	(4.3)	(4.1)		
EBITDA (Rs. m)	40,510	47,447	41,839	48,933
% Chng.	(3.2)	(3.0)		
EPS (Rs.)	11.9	13.9	12.2	14.4
% Chng.	(3.2)	(3.0)		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	140,638	157,901	184,640	216,260
EBITDA (Rs. m)	31,811	33,459	40,510	47,447
Margin (%)	22.6	21.2	21.9	21.9
PAT (Rs. m)	20,654	24,018	28,896	33,949
EPS (Rs.)	8.5	9.9	11.9	13.9
Gr. (%)	15.1	16.3	20.3	17.5
DPS (Rs.)	4.0	3.2	3.8	4.5
Yield (%)	1.9	1.5	1.8	2.1
RoE (%)	20.0	20.7	21.5	21.8
RoCE (%)	27.2	25.6	26.8	27.2
EV/Sales (x)	3.3	2.9	2.5	2.1
EV/EBITDA (x)	14.5	13.9	11.2	9.4
PE (x)	24.7	21.3	17.7	15.1
P/BV (x)	4.7	4.1	3.5	3.1

Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.228 / Rs.116
Sensex / Nifty	58,014 / 17,340
Market Cap	Rs.511bn/ \$ 6,847m
Shares Outstanding	2,437m
3M Avg. Daily Value	Rs.1473.8m

Shareholding Pattern (%)

Promoter's	51.14
Foreign	17.21
Domestic Institution	26.77
Public & Others	4.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.1)	13.6	61.2
Relative	0.3	2.9	28.6

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Strong Execution

Quick Pointers:

- Management lowered down its revenue growth guidance to 10-12%, while maintained margin guidance of 20-22% for FY22.
- Order pipeline stands at Rs30-40bn for Q4FY22.

Bharat Electronics (BEL) reported strong quarterly performance with revenue growth of 61% YoY. Despite lower gross margin, EBITDA margins expanded 308bps YoY to 22.3% in Q3FY22 mainly due to improved operational efficiency, withdrawal of ventilator warranty provision and reversal of bad debt provision (on account of focus on collections). In Q3 BEL bagged major orders like 1) Avionics package for Tejas aircraft (Rs18.7bn) 2) Weapon Locating Radar (WLR) (Rs3.7bn) and 3) Electro optic fire control system (Rs2.8bn). BEL bagged export orders worth US\$300mn in 9MFY22. OB stands strong at Rs566bn (3.6x TTM revenue). Order pipeline for Q4FY22 stands at Rs30-40bn. Management indicated that semiconductor shortage may impact Q4 performance and hence lowered its revenue growth guidance to 10-12% from 15-17% earlier, while maintained its margin guidance at 20-22%.

We cut down our earnings estimate by 3.4%/3.2%/3% for FY22/23/24, factoring in semiconductor and logistic issues. We remain positive on long term growth story of company given its strong order backlog, tender pipeline and diversification in newer business verticals like EV battery, Medical equipments, Metro etc. The stock is currently trading at 21.3x/17.7x/15.1x FY22/23/24E. We roll over our TP to FY24E and maintain 'Buy' rating with TP of Rs265 (Rs 245 earlier).

Strong performance: Sales grew 61% YoY to Rs36.9bn (PLe ~Rs32.9bn), led by pickup in order book execution. Gross margin declined to 40.4% vs 48.6% in Q3FY21. EBITDA grew 86.7% YoY at Rs8.2bn (PLe ~Rs6.6bn) with EBITDA margins expanding by 308bps YoY to 22.3%, led by lower other expenses (down 24.2% YoY). PBT grew 113.7% YoY to Rs7.8bn led by strong operational performance and higher other income (up 156% YoY). PAT grew 123% YoY to Rs5.8bn (PLe ~Rs4.5bn), led by strong operational performance.

Strong order book: Order book stands strong at Rs566bn (3.6x TTM revenue) providing revenue visibility for next couple of years. BEL bagged export orders worth US\$300mn in 9MFY22 including IOT device order from US (US\$ 73mn), supply of RWR & MWS for C-295 aircraft (US\$93mn). BEL is developing communication based train control system which is expected to be completed in next 17-18months and has opportunity size of Rs70bn from ongoing/ announced metro projects.

Exhibit 1: Strong execution

Y/e March	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	YoY gr. (%)	QoQ gr. (%)	9MFY22	9MFY21	YoY gr. (%)
Revenue	22,962	69,083	16,346	36,606	36,937	60.9	0.9	89,889	71,555	25.6
Total Revenues	22,962	69,083	16,346	36,606	36,937	60.9	0.9	89,889	71,555	25.6
Expenditure	18,559	49,378	15,717	28,041	28,716	54.7	2.4	72,474	59,449	21.9
<i>as % of sales</i>	<i>80.8</i>	<i>71.5</i>	<i>96.2</i>	<i>76.6</i>	<i>77.7</i>			<i>80.6</i>	<i>83.1</i>	
Consumption of RM	11,811	40,693	9,547	20,666	22,002	86.3	6.5	52,215	37,585	38.9
<i>as % of sales</i>	<i>51.4</i>	<i>58.9</i>	<i>58.4</i>	<i>56.5</i>	<i>59.6</i>			<i>58.1</i>	<i>52.5</i>	
Employee Cost	4,539	4,782	4,950	5,327	5,039	11.0	(5.4)	15,316	14,625	4.7
<i>as % of sales</i>	<i>19.8</i>	<i>6.9</i>	<i>30.3</i>	<i>14.6</i>	<i>13.6</i>			<i>17.0</i>	<i>20.4</i>	
Other expenditure	2,209	3,903	1,220	2,048	1,675	(24.2)	(18.2)	4,943	7,240	(31.7)
<i>as % of sales</i>	<i>9.6</i>	<i>5.6</i>	<i>7.5</i>	<i>5.6</i>	<i>4.5</i>			<i>5.5</i>	<i>10.1</i>	
EBITDA	4,404	19,706	629	8,565	8,221	86.7	(4.0)	17,414	12,106	43.9
Depreciation	945	917	922	941	929	(1.7)	(1.3)	2,792	2,747	1.7
EBIT	3,459	18,789	(294)	7,623	7,292	110.8	(4.3)	14,622	9,359	56.2
Other Income	231	572	447	659	593	156.4	(10.0)	1,698	689	146.4
Interest	2	56	1	5	2	12.5	(62.5)	8	5	50.9
PBT	3,688	19,305	152	8,277	7,883	113.7	(4.8)	16,312	10,043	62.4
Total Tax	1,070	5,782	40	2,151	2,050	91.6	(4.7)	4,241	2,912	45.6
Adjusted PAT	2,619	13,524	112	6,126	5,834	122.8	(4.8)	12,071	7,130	69.3
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	2,619	13,524	112	6,126	5,834	122.8	(4.8)	12,071	7,130	69.3
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	2,619	13,524	112	6,126	5,834	122.8	(4.8)	12,071	7,130	69.3
Adjusted EPS	1.1	5.6	0.0	2.5	2.4	122.8	(4.8)	5.0	2.9	69.3
Margins (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	bps	bps	9MFY22	9MFY21	bps
EBIDTA	19.2	28.5	3.8	23.4	22.3	308	(114)	19.4	16.9	246
EBIT	15.1	27.2	(1.8)	20.8	19.7	468	(108)	16.3	13.1	319
EBT	16.1	27.9	0.9	22.6	21.3	528	(127)	18.1	14.0	411
PAT	11.4	19.6	0.7	16.7	15.8	439	(94)	13.4	10.0	346
Effective Tax rate	29.0	29.9	26.5	26.0	26.0	(300)	1	26.0	29.0	(300)

Source: Company, PL

Conference call Highlights

- Management indicated that Q4FY22 performance may get impacted due to semiconductor shortage and unavailability of container and ships.
- Management lowered its revenue growth guidance for FY22 to 10-12% from 15-17% earlier, due to semiconductor issue. While maintained its margin guidance at 20-22%.
 - Given strong order backlog, FY23 revenue growth to be ~15-17% and even going forward.
- Other expenses were lower due to withdrawal of warranty provision (worth Rs400mn) and reversal of bad debt provision.
- BEL bagged export orders worth \$300mn in 9MFY22, including IOT device order from (for 5G network) US (\$73mn), supply of RWR & MWS for C-295 aircraft (\$93mn).
- While domestic market bagged order for Avionic package for Tejas aircraft (Rs18.7bn) and Electric optical fire control system (Rs2.8bn).
- Management indicated order pipeline of Rs30-40bn for Q4FY22.
- Order book stands strong at Rs565bn of which exports accounts for 5% and services~10%.
- Non defence portfolio
 - BEL is developing communication based train control system which is expected to be completed in next 17-18months and has opportunity size of Rs70bn from ongoing metro projects.
 - BEL has developed in-house ventilator to save on royalty and technology transfer fee and is in a certification stage.
- Capex and R&D: BEL to incur capex worth Rs20bn over 2-3 years (Rs6-7bn annually). R&D cost to be ~Rs10-11bn going forward.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	140,638	157,901	184,640	216,260
YoY gr. (%)	8.8	12.3	16.9	17.1
Cost of Goods Sold	78,278	91,583	103,398	121,105
Gross Profit	62,360	66,319	81,242	95,154
Margin (%)	44.3	42.0	44.0	44.0
Employee Cost	19,407	21,317	25,388	29,736
Other Expenses	8,747	7,895	11,078	12,976
EBITDA	31,811	33,459	40,510	47,447
YoY gr. (%)	16.5	5.2	21.1	17.1
Margin (%)	22.6	21.2	21.9	21.9
Depreciation and Amortization	3,663	3,755	4,516	5,156
EBIT	28,148	29,704	35,994	42,291
Margin (%)	20.0	18.8	19.5	19.6
Net Interest	61	49	51	54
Other Income	1,261	2,369	2,585	3,028
Profit Before Tax	29,348	32,024	38,528	45,265
Margin (%)	20.9	20.3	20.9	20.9
Total Tax	8,694	8,006	9,632	11,316
Effective tax rate (%)	29.6	25.0	25.0	25.0
Profit after tax	20,654	24,018	28,896	33,949
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	20,654	24,018	28,896	33,949
YoY gr. (%)	15.1	16.3	20.3	17.5
Margin (%)	14.7	15.2	15.6	15.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	20,654	24,018	28,896	33,949
YoY gr. (%)	15.1	16.3	20.3	17.5
Margin (%)	14.7	15.2	15.6	15.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	20,654	24,018	28,896	33,949
Equity Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	8.5	9.9	11.9	13.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	40,454	48,454	56,454	64,454
Tangibles	40,454	48,454	56,454	64,454
Intangibles	-	-	-	-
Acc: Dep / Amortization	16,227	19,982	24,498	29,655
Tangibles	16,227	19,982	24,498	29,655
Intangibles	-	-	-	-
Net fixed assets	24,227	28,471	31,955	34,799
Tangibles	24,227	28,471	31,955	34,799
Intangibles	-	-	-	-
Capital Work In Progress	7,936	7,936	7,936	7,936
Goodwill	-	-	-	-
Non-Current Investments	13,667	15,553	18,187	21,302
Net Deferred tax assets	4,634	4,634	4,634	4,634
Other Non-Current Assets	3,908	4,737	5,539	6,488
Current Assets				
Investments	-	-	-	-
Inventories	49,547	56,239	65,762	77,024
Trade receivables	65,515	82,195	85,997	100,724
Cash & Bank Balance	50,082	45,277	55,309	66,987
Other Current Assets	70,365	71,056	73,856	86,504
Total Assets	285,898	313,043	346,388	403,926
Equity				
Equity Share Capital	2,437	2,437	2,437	2,437
Other Equity	105,642	121,975	141,624	164,709
Total Networkth	108,079	124,411	144,060	167,145
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	32,968	21,630	25,293	29,625
Other current liabilities	149,484	171,636	181,669	211,790
Total Equity & Liabilities	285,898	313,043	346,388	403,926

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	29,348	32,024	38,528	45,265
Add. Depreciation	3,663	3,755	4,516	5,156
Add. Interest	61	49	51	54
Less Financial Other Income	1,261	2,369	2,585	3,028
Add. Other	689	-	-	-
Op. profit before WC changes	33,761	35,828	43,095	50,475
Net Changes-WC	22,597	(15,994)	(3,726)	(5,718)
Direct tax	(5,323)	(8,006)	(9,632)	(11,316)
Net cash from Op. activities	51,035	11,828	29,737	33,441
Capital expenditures	(4,664)	(8,899)	(10,406)	(10,846)
Interest / Dividend Income	600	-	-	-
Others	(21,622)	-	-	-
Net Cash from Invt. activities	(25,686)	(8,899)	(10,406)	(10,846)
Issue of share cap. / premium	-	-	-	-
Debt changes	(83)	-	-	-
Dividend paid	(10,227)	(7,686)	(9,247)	(10,864)
Interest paid	(58)	(49)	(51)	(54)
Others	(385)	-	-	-
Net cash from Fin. activities	(10,754)	(7,734)	(9,298)	(10,917)
Net change in cash	14,594	(4,805)	10,033	11,678
Free Cash Flow	46,357	3,828	21,737	25,441

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	8.5	9.9	11.9	13.9
CEPS	10.0	11.4	13.7	16.0
BVPS	44.4	51.1	59.1	68.6
FCF	19.0	1.6	8.9	10.4
DPS	4.0	3.2	3.8	4.5
Return Ratio(%)				
RoCE	27.2	25.6	26.8	27.2
ROIC	37.2	31.4	34.2	35.8
RoE	20.0	20.7	21.5	21.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	213	270	250	250
Valuation(x)				
PER	24.7	21.3	17.7	15.1
P/B	4.7	4.1	3.5	3.1
P/CEPS	21.0	18.4	15.3	13.1
EV/EBITDA	14.5	13.9	11.2	9.4
EV/Sales	3.3	2.9	2.5	2.1
Dividend Yield (%)	1.9	1.5	1.8	2.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	69,083	16,346	36,606	36,937
YoY gr. (%)	19.0	(2.2)	14.8	60.9
Raw Material Expenses	40,693	9,547	20,666	22,002
Gross Profit	28,390	6,799	15,939	14,935
Margin (%)	41.1	41.6	43.5	40.4
EBITDA	19,706	629	8,565	8,221
YoY gr. (%)	32.9	(57.2)	37.4	86.7
Margin (%)	28.5	3.8	23.4	22.3
Depreciation / Depletion	917	922	941	929
EBIT	18,789	(294)	7,623	7,292
Margin (%)	27.2	(1.8)	20.8	19.7
Net Interest	56	1	5	2
Other Income	572	447	659	593
Profit before Tax	19,305	152	8,277	7,883
Margin (%)	27.9	0.9	22.6	21.3
Total Tax	5,782	40	2,151	2,050
Effective tax rate (%)	29.9	26.5	26.0	26.0
Profit after Tax	13,524	112	6,126	5,834
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,524	112	6,126	5,834
YoY gr. (%)	30.7	(79.4)	54.3	122.8
Margin (%)	19.6	0.7	16.7	15.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,524	112	6,126	5,834
YoY gr. (%)	30.7	(79.4)	54.3	122.8
Margin (%)	19.6	0.7	16.7	15.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,524	112	6,126	5,834
Avg. Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	5.6	-	2.5	2.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-22	BUY	245	211
2	5-Oct-21	BUY	245	206
3	28-Sep-21	BUY	245	210
4	9-Aug-21	BUY	208	171
5	6-Jul-21	BUY	208	181
6	23-Jun-21	BUY	208	169
7	7-Apr-21	Accumulate	110	131

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	UR	-	2,288
2	Apar Industries	BUY	790	780
3	Bharat Electronics	BUY	245	211
4	BHEL	Sell	34	63
5	Cummins India	Accumulate	1,051	952
6	Engineers India	BUY	129	71
7	GE T&D India	Hold	139	132
8	Kalpataru Power Transmission	BUY	508	381
9	KEC International	Accumulate	445	482
10	Larsen & Toubro	BUY	2,382	1,898
11	Siemens	Accumulate	2,310	2,321
12	Thermax	Accumulate	1,633	1,922
13	Triveni Turbine	UR	-	181
14	Voltamp Transformers	Accumulate	1,825	2,021

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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