

July 21, 2022

Company Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	295		285	
Sales (Rs. m)	180,136	211,409	180,136	211,409
% Chng.	-	-	-	-
EBITDA (Rs. m)	39,522	46,611	39,522	46,383
% Chng.	-	0.5	-	-
EPS (Rs.)	11.7	14.1	11.5	13.6
% Chng.	1.9	3.4	-	-

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	140,638	153,138	180,136	211,409
EBITDA (Rs. m)	31,811	33,092	39,522	46,611
Margin (%)	22.6	21.6	21.9	22.0
PAT (Rs. m)	20,654	23,489	28,629	34,240
EPS (Rs.)	8.5	9.6	11.7	14.1
Gr. (%)	15.1	13.7	21.9	19.6
DPS (Rs.)	4.0	4.5	3.8	5.6
Yield (%)	1.5	1.7	1.4	2.1
RoE (%)	20.0	20.6	22.1	22.9
RoCE (%)	27.2	25.7	27.1	28.1
EV/Sales (x)	4.3	4.2	3.4	2.9
EV/EBITDA (x)	19.0	19.4	15.6	12.9
PE (x)	31.7	27.9	22.9	19.1
P/BV (x)	6.1	5.5	4.7	4.1

Key Data

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52-W High / Low	Rs.270 / Rs.162
Sensex / Nifty	55,682 / 16,605
Market Cap	Rs.655bn/ \$ 8,189m
Shares Outstanding	2,437m
3M Avg. Daily Value	Rs.1524.58m

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	16.7	29.8	48.3
Relative	10.1	37.7	39.0

Amit Anwani

amitanwani@plindia.com | 91-22-66322250

Nilesh Soni

nileshsoni@plindia.com | 91-22-66322214

Healthy order pipeline

Quick Pointers:

- Management guided revenue growth of 15% and EBITDA margin in 21-23% range for FY23.
- Q1FY23 revenue included ~Rs8bn revenue from spillover of Q4FY22 execution, which got delayed due to semiconductor shortage.

Management in its recent conference call highlighted that FY23 order pipeline remains healthy, with expected orders such as Akash missile system, warfare system, radars, naval fire control system etc. and the company expects to bag orders worth ~Rs200bn. Given robust order book (Rs553.3bn, 3.3xTTM revenue), management guided for revenue growth of ~15% with EBITDA margin in range of 21-23% for FY23. Exports opportunity stands strong and management expect to bag orders of ~US\$400-450mn in FY23 vs US\$180mn in FY22. Company has also been focusing on diversifying in non-defense verticals such as EV, metros, electronic warfare, healthcare, homeland security etc. Capex of ~Rs30bn has been planned for capacity expansion of which Rs20bn has already been completed and ~Rs10bn is expected to be incurred in FY23.

We remain positive 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, Metro, focus on exports market, government focus on product indigenization etc. We have revised our earnings estimate by 1.9%/3.4% for FY23/24 factoring in higher other income. The stock is currently trading at 22.9x/19.1x FY23/24E. Maintain 'Buy' rating on stock with revised TP of Rs295 (Rs285 earlier) valuing it at PE of 21x FY24E (same as earlier).

Order pipeline remains healthy for next two years: Order pipeline remains strong for FY23 with expected orders such as Akash missile system for BDL (~Rs40bn), land base warfare system (Rs32bn), Radars (~Rs30bn), helicopter EW system for 17 helicopters (Rs15bn), ship based program (Rs25bn), naval fire control system (Rs25bn), BMP upgrade (~Rs20bn) and Civil order inflow (~Rs5bn). While some large orders for QRSAM worth Rs200bn and LRSAM ~Rs150-200bn are expected to come in FY24.

Execution momentum to continue: BEL's supply chain is now getting normalized and going forward the supplier has committed for regular supply of semiconductors. FY22 revenues worth Rs27bn were impacted due semiconductor shortage, but it will likely get executed in FY23 (of which Rs8bn is already been booked in Q1FY23). Given robust order book, ordering pipeline and supply chain getting normalized, management guided revenue growth of ~15% for FY23. Further, gross margin will be ~42% with EBITDA margin in 21-23% range.

Key takeaways:

- **Order inflow pipeline:** Order pipeline for FY23 includes Akash missile system for BDL (~Rs40bn), land base warfare system (Rs32bn), Rudhra Radars (~Rs30bn), helicopter EW system for 17 helicopters (Rs15bn), ship based program (Rs25bn), naval fire control system (Rs25bn), BMP upgrade (~Rs20bn) and Civil order inflow (~Rs5bn).
- **Large order bagged in FY22:** Instrumented Electronic Warfare Range (IEWR), Avionics (Rs30bn), Electronic warfare for D29, Exports for C-295, orders from CSL and GRSE for shallow water trap etc.
- **Other income:** Other income for Q1FY23, was higher due to special dividend received from associate to tune of Rs780mn.
- Supply chain has started normalizing and chip manufacturer has committed for regular supply.
- BEL has given quotes for QSRAM and expect order for 2 regiment to be placed by army in FY24, of total 4 regiment required.
- Likely to get orders from QRSAM (Rs200bn) and LRSAM (Rs150-200bn) in FY24.
- Import share from Russia and Ukraine is less than 5%.
- Civil segment is expected to contribute ~15% of total revenue in FY23.
- Current component supplied in LCA is ~10-12%. BEL is developing EDW for Tejas which is imported from Europe, once it is approved along with radar then BEL's contribution will go upto 25%.
- **Exports:** Opportunity size from exports stands high due to government focus on increasing defense exports. Order inflow from exports stood at ~US\$180mn in FY23 and targets for US\$400-450mn for FY24.
- **Guidance:** Management indicated revenue growth of ~15% with EBITDA margin of ~21-23% for FY23. Order inflow to come in at ~Rs200bn in FY23.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	140,638	153,138	180,136	211,409
YoY gr. (%)	8.8	8.9	17.6	17.4
Cost of Goods Sold	78,278	89,025	104,479	122,617
Gross Profit	62,360	64,113	75,657	88,792
Margin (%)	44.3	41.9	42.0	42.0
Employee Cost	19,407	21,094	22,571	24,143
Other Expenses	8,747	6,389	9,403	12,520
EBITDA	31,811	33,092	39,522	46,611
YoY gr. (%)	16.5	4.0	19.4	17.9
Margin (%)	22.6	21.6	21.9	22.0
Depreciation and Amortization	3,663	3,802	4,406	4,604
EBIT	28,148	29,291	35,116	42,008
Margin (%)	20.0	19.1	19.5	19.9
Net Interest	61	49	51	53
Other Income	1,261	2,336	3,107	3,700
Profit Before Tax	29,348	31,578	38,173	45,654
Margin (%)	20.9	20.6	21.2	21.6
Total Tax	8,694	8,089	9,543	11,413
Effective tax rate (%)	29.6	25.6	25.0	25.0
Profit after tax	20,654	23,489	28,629	34,240
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	20,654	23,489	28,629	34,240
YoY gr. (%)	15.1	13.7	21.9	19.6
Margin (%)	14.7	15.3	15.9	16.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	20,654	23,489	28,629	34,240
YoY gr. (%)	15.1	13.7	21.9	19.6
Margin (%)	14.7	15.3	15.9	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	20,654	23,489	28,629	34,240
Equity Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	8.5	9.6	11.7	14.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	40,454	44,574	52,574	64,574
Tangibles	40,454	44,574	52,574	64,574
Intangibles	-	-	-	-
Acc: Dep / Amortization	16,227	20,029	24,434	29,038
Tangibles	16,227	20,029	24,434	29,038
Intangibles	-	-	-	-
Net fixed assets	24,227	24,545	28,139	35,536
Tangibles	24,227	24,545	28,139	35,536
Intangibles	-	-	-	-
Capital Work In Progress	7,936	9,281	9,281	9,281
Goodwill	-	-	-	-
Non-Current Investments	13,667	15,084	17,743	27,166
Net Deferred tax assets	4,634	6,207	6,207	6,207
Other Non-Current Assets	3,908	6,778	5,404	5,708
Current Assets				
Investments	-	-	-	-
Inventories	49,547	55,669	64,158	72,400
Trade receivables	65,515	123,900	83,899	87,460
Cash & Bank Balance	50,082	12,390	36,905	51,565
Other Current Assets	70,365	79,113	72,054	76,530
Total Assets	285,898	328,292	319,385	367,759
Equity				
Equity Share Capital	2,437	2,437	2,437	2,437
Other Equity	105,642	117,406	136,874	157,418
Total Network	108,079	119,843	139,311	159,855
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	32,968	20,978	24,676	28,960
Other current liabilities	149,484	193,679	161,606	185,151
Total Equity & Liabilities	285,898	328,292	319,385	367,759

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	29,348	31,578	38,173	45,654
Add. Depreciation	3,663	3,802	4,406	4,604
Add. Interest	61	49	51	53
Less Financial Other Income	1,261	2,336	3,107	3,700
Add. Other	689	(1,290)	-	-
Op. profit before WC changes	33,761	34,139	42,629	50,311
Net Changes-WC	22,597	15,498	11,071	10,669
Direct tax	(5,323)	(8,024)	(9,543)	(11,413)
Net cash from Op. activities	51,035	41,612	44,157	49,566
Capital expenditures	(4,664)	(5,461)	(10,430)	(21,157)
Interest / Dividend Income	600	1,778	-	-
Others	(21,622)	(44,923)	-	-
Net Cash from Invst. activities	(25,686)	(48,606)	(10,430)	(21,157)
Issue of share cap. / premium	-	-	-	-
Debt changes	(83)	-	-	-
Dividend paid	(10,227)	(10,233)	(9,161)	(13,696)
Interest paid	(58)	(18)	(51)	(53)
Others	(385)	(521)	-	-
Net cash from Fin. activities	(10,754)	(10,772)	(9,212)	(13,750)
Net change in cash	14,594	(17,766)	24,514	14,660
Free Cash Flow	46,357	36,077	36,157	37,566

Source: Company Data, PL Research

Key Financial Metrics

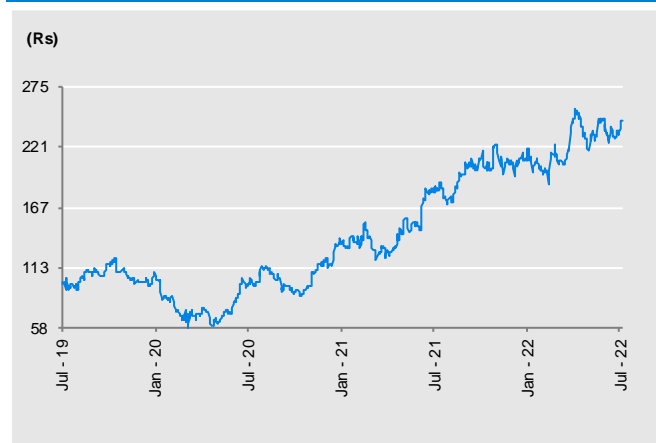
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	8.5	9.6	11.7	14.1
CEPS	10.0	11.2	13.6	15.9
BVPS	44.4	49.2	57.2	65.6
FCF	19.0	14.8	14.8	15.4
DPS	4.0	4.5	3.8	5.6
Return Ratio(%)				
RoCE	27.2	25.7	27.1	28.1
ROIC	37.2	21.5	28.4	32.1
RoE	20.0	20.6	22.1	22.9
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.1)	(0.3)	(0.3)
Net Working Capital (Days)	213	378	250	226
Valuation(x)				
PER	31.7	27.9	22.9	19.1
P/B	6.1	5.5	4.7	4.1
P/CEPS	26.9	24.0	19.8	16.9
EV/EBITDA	19.0	19.4	15.6	12.9
EV/Sales	4.3	4.2	3.4	2.9
Dividend Yield (%)	1.5	1.7	1.4	2.1

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)	2,437	2,437	2,437	2,437
EPS (Rs)	2.5	2.4	4.7	1.8

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Jul-22	BUY	285	246
2	05-Jul-22	BUY	265	230
3	24-May-22	BUY	265	232
4	08-Apr-22	BUY	258	234
5	01-Feb-22	BUY	265	210
6	11-Jan-22	BUY	245	211
7	05-Oct-21	BUY	245	206
8	28-Sep-21	BUY	245	210
9	09-Aug-21	BUY	208	171

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	2,293	2,362
2	Apar Industries	UR	-	941
3	Bharat Electronics	BUY	285	246
4	BHEL	Sell	36	46
5	Cummins India	Accumulate	1,087	1,052
6	Engineers India	BUY	89	60
7	GE T&D India	Hold	102	101
8	Kalpataru Power Transmission	BUY	421	357
9	KEC International	Accumulate	451	397
10	Larsen & Toubro	BUY	2,091	1,582
11	Siemens	Accumulate	2,602	2,522
12	Thermax	Accumulate	2,181	2,049
13	Triveni Turbine	BUY	240	154
14	Voltamp Transformers	UR	-	2,972

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

www.plindia.com