

Increasing focus on non-defence segments...

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, homeland security, civilian products, etc
- Focus to increase the non-defence share to ~20% over two to three years

Q2FY23 Results: Largely in-line with estimates.

- Revenue increased 7.8% YoY (up 26.8% QoQ) to ₹ 3,945.8 crore; largely in-line with estimates. The growth was primarily driven by better execution
- EBITDA margin contracted 171 bps YoY (+519 bps QoQ) to 21.7%; lower than our estimate of 23.6%. This was primarily on account of higher than expected others cost, which increased 25.2% YoY
- PAT also remained flattish on a YoY basis at ₹ 611.1 crore against our estimate of ₹ 659.4 crore; primarily due to lower-than-expected OPM
- Order backlog was at ₹ 52,795 crore as of September 2022 end (~3.1x TTM revenues). Implied order inflows were at ₹ 1408 crore during Q2FY23 and ₹ 2,284 during H1FY23

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 ₹ 135 i.e. 30x P/E on FY24E 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 pipeline in FY23-24E
- We expect revenue, EBITDA to grow at a CAGR of 18.5%, 20.1%, respectively, in FY22-FY24E aided by sustained margins at ~22%
- Strong balance sheet, double digit returns ratios

Alternate Stock Idea: We also like Larsen & Toubro in our coverage.

- Focus on monetisation of non-core assets, improving RoEs and reducing debt make it an attractive bet to ride the infrastructure revival theme
- BUY with target price of ₹ 2175



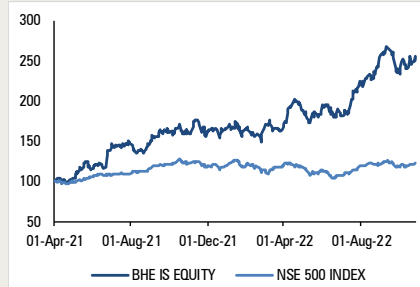
Particulars

Particular	Amount
Market Capitalization	₹ 78215 Crore
Total Debt (FY22)	₹ 72.1 Crore
Cash and Inv (FY22)	₹ 1297.1 crore
EV (FY22)	₹ 76036 Crore
52 week H/L (₹) (BSE)	341 / 183
Equity capital	₹ 731 Crore
Face value	₹ 1

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	51.1	51.1	51.1	51.1
FII	17.2	16.8	16.0	17.4
DII	26.8	26.7	27.8	25.6
Others	4.9	5.4	5.1	5.9

Price Performance



Recent Events & Key Risks

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

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	5 Year CAGR	FY23E	FY24E	2 Year CAGR
Revenues	12,085	12,921	14,064	15,314	4.9	18,138	21,512	18.5
EBITDA	2,862	2,730	3,181	3,309	2.9	4,009	4,776	20.1
EBITDA margin (%)	23.7	21.1	22.6	21.6		22.1	22.2	
Net Profit	1,927	1,794	2,065	2,349	4.0	2,751	3,279	18.2
EPS (₹)	2.6	2.5	2.8	3.2		3.8	4.5	
P/E (x)	40.6	43.6	37.9	33.3		28.4	23.9	
EV/EBITDA (x)	27.4	28.2	23.9	23.3		19.3	15.6	
RoCE (%)	33.0	27.4	29.4	26.1		28.4	30.0	
RoE (%)	23.5	19.9	20.7	19.5		21.2	22.4	

Key takeaways of recent quarter

Q2FY23 Results:

- Revenue increased 7.8% YoY (up 26.8% QoQ) to ₹ 3,945.8 crore; largely in-line with our estimate of ₹ 3,990.3 crore. The growth was primarily driven by better execution. Also, some revenue (which was not booked in FY22 due to supply chain issues) has spilled over during the quarter. H1FY23 revenue growth was at 33.3% YoY as revenues grew significantly by 90.4% YoY in Q1FY23 on a lower base
- Gross margin was at 43.3% during the quarter (in line with our estimate of 43.8%); largely similar to the gross margin of 43.5% in Q2FY22. Total raw material cost has increased 8.3% YoY; in line with our estimate
- EBITDA margin contracted 171 bps YoY (up 519 bps QoQ) to 21.7%; lower than our estimate of 23.6%. This was primarily on account of higher than expected others cost, which increased 25.2% YoY
- EBITDA remained flattish on a YoY basis at ₹ 855.8 crore (vs. I-direct estimate of ₹ 942.4 crore) as revenue growth of 7.8% has been negated by contraction in margins. H1FY23 EBITDA is up 48.9% YoY on strong revenue growth and better margins (H1FY23 margin is up 204 bps YoY)
- PAT also remained flattish on a YoY basis at ₹ 611.1 crore against our estimate of ₹ 659.4 crore; primarily due to lower-than-expected EBITDA margins. Sequentially, PAT has increased 41.6%. H1FY23 PAT is up 67.1% led by better revenue growth and higher margins
- The order book position of the company was at ₹ 52,795 crore as of September 2022 end (~3.1x TTM revenues). Implied order inflows were at ₹ 1408 crore during Q2FY23 and ₹ 2,284 crore during H1FY23

Earnings call highlights

- The company has maintained its revenue growth guidance of 15% and EBITDA margin guidance of 22-23% for FY23E. Revenue growth guidance for FY24 was at 15-20%
- Orders inflow during the year are expected at ~₹ 20,000 crore. Moreover, order inflows for the next three to four years are expected at ₹ 20000 each year
- Major orders in pipeline are: Akash Prime (₹ 4,000 crore), Himshakti electronic warfare (EW) worth ₹ 3,000 crore, Arudhra Radar worth ₹ 3,000 crore, electronic warfare systems for Su-30 aircraft, ships, helicopters, weapon detecting radars. Quick reaction surface to air missile (QRSAM) contract is expected in FY24E post completion of remaining one or two tests
- In non-defence, the major orders expected from civil air traffic managing system, metros, e-mobility, etc. The company recently signed an MoU with Chennai metro for platform screening doors
- Recently BEL has received letter of intent (LoI) of ₹ 8060 crore from TEV India (Triton Electric Vehicle India - part of Triton Electric Vehicle LLC, US) for supply of 300 KW Li-Ion battery packs for their semi-truck project in India. BEL also signed an MoU with the company for manufacturing hydrogen fuel cells (with technology transfer from TEV) to meet the requirements of the Indian market and mutually agreed export markets. Once these products get final approval after usage in electric trucks, final orders will be received in the next two years
- Recently released fourth positive indigenisation list has 39 items for BEL, which provides potential of about ₹ 30000 crore of contracts
- EBITDA margin can be increased to 23-24% as BEL is entering into many new non-defence segments. It plans to increase the total share of non-defence business in total sales to 20% in the next two to three years from ~12% in FY22

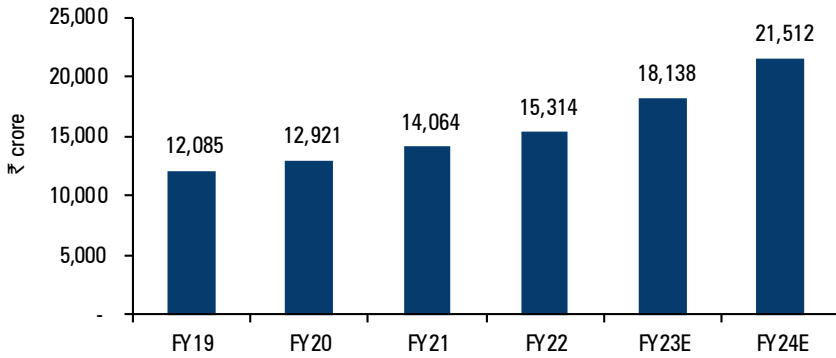
Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Operating Income	3,945.8	3,990.3	3,660.5	7.8	3,113	26.8	Revenue came in-line with estimates
Other income	75.0	44.0	65.9	13.9	160	-53.0	
Total Revenue	4,020.8	4,034.3	3,726.4	7.9	3,272.5	22.9	
Raw materials costs	2,238.3	2,244.0	2,066.6	8.3	1,808	23.8	
Employees Expenses	595.5	577.6	532.7	11.8	576	3.3	
Other Expenses	256.3	226.3	204.8	25.2	214	19.5	
Total Expenditure	3,090.1	3,047.9	2,804.1	10.2	2,599	18.9	
EBITDA	855.8	942.4	856.4	-0.1	513.5	66.7	Higher than expected other cost impacted margins
EBITDA margins (%)	21.7	23.6	23.4	-171 bps	16.5	519 bps	
Interest	1.7	1.3	0.5		1.0		
Depreciation	104.2	100.0	94.1	10.7	94.1	10.7	
Tax	213.8	225.7	215.1	-0.6	146.6	45.8	
PAT	611.1	659.4	612.6	-0.2	431.5	41.6	

Source: Company, ICICI Direct Research

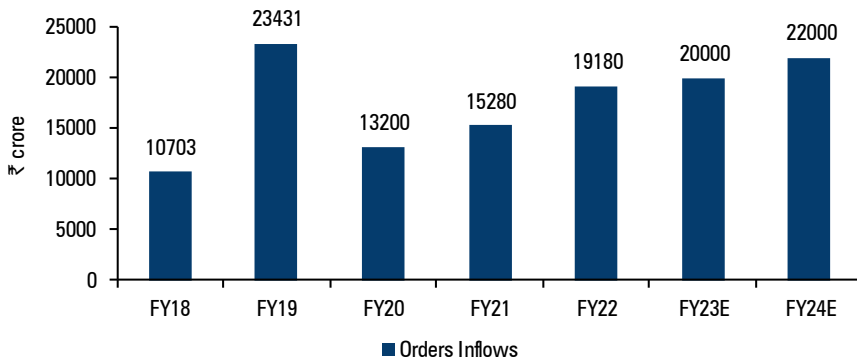
Financial story in charts

Exhibit 2: Revenue trend



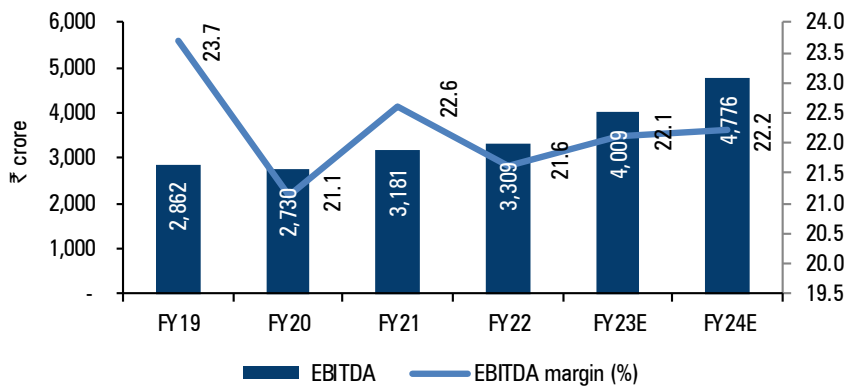
Source: Company, ICICI Direct Research

Exhibit 3: Order inflow trend



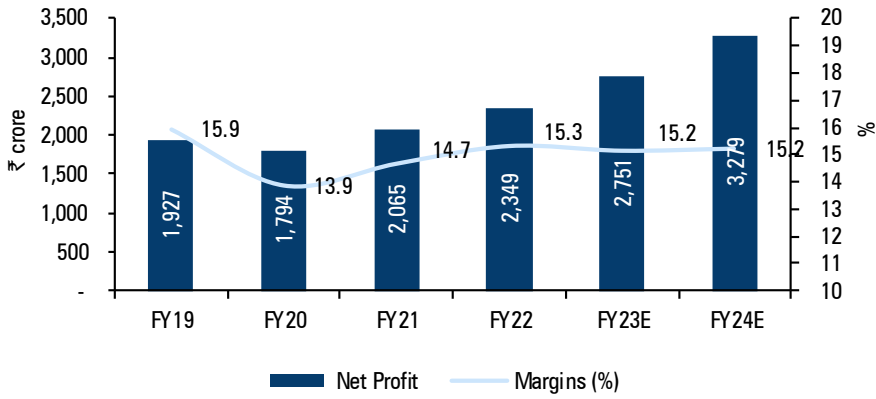
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



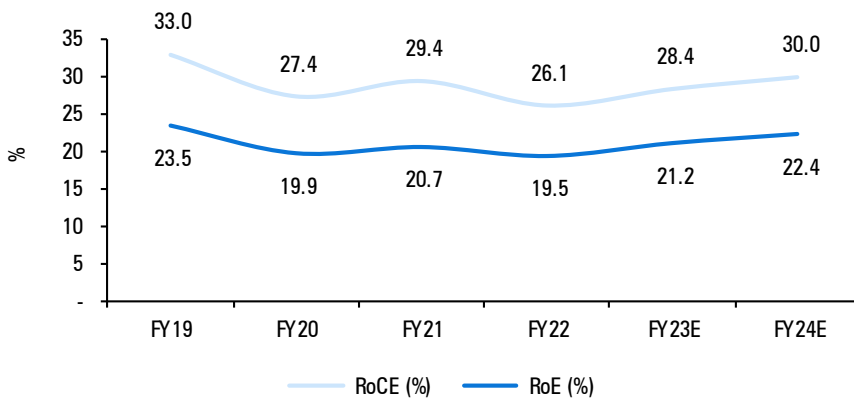
Source: Company, ICICI Direct Research

Exhibit 5: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement					
₹ crore					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	12,608	13,818	15,044	17,817	21,131
Other operating income	313	246	270	321	380
Revenue	12,921	14,064	15,314	18,138	21,512
% Growth		8.8	8.9	18.4	18.6
Other income	101.9	126.1	233.6	178.0	190.0
Total Revenue	13,023	14,199	15,314	18,138	21,512
% Growth		9.0	7.9	18.4	18.6
Total Raw Material Costs	7,105	7,828	8,903	10,191	12,045
Employee Expenses	2,058	1,941	2,109	2,263	2,684
other expenses	1,028	1,114	993	1,675	2,007
Total Operating Expenditure	10,191	10,883	12,005	14,129	16,736
Operating Profit (EBITDA)	2,730	3,181	3,309	4,009	4,776
% Growth		16.5	4.0	21.1	19.1
Interest	3	6	5	5	5
PBDT	2,829	3,301	3,538	4,182	4,961
Depreciation	350	366	380	490	559
PBT before Exceptional lter	2,479	2,935	3,158	3,692	4,401
Total Tax	685	869	809	941	1,122
PAT before MI	1,794	2,065	2,349	2,751	3,279
Minority Interest	-	-	-	-	-
PAT	1,794	2,065	2,349	2,751	3,279
% Growth		15.1	13.7	17.1	19.2
EPS	7.4	2.8	3.2	3.8	4.5

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					
₹ crore					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	243.7	243.7	243.7	731.0	731.0
Reserve and Surplus	8,781	9,736	11,798	12,236	13,895
Total Shareholders funds	9,024	9,979	12,042	12,967	14,626
Other Non Current Liabilities	1.3	-	-	-	-
Total Debt	49	8	72	72	72
Total Liabilities	9,144	11,460	13,976	14,901	16,559
Gross Block	2,985	3,764	4,045	4,956	5,632
Acc: Depreciation	1,268	1,623	2,003	2,493	3,052
Net Block	2,497	2,423	2,454	2,463	2,580
Capital WIP	199	351	399	600	500
Total Fixed Assets	2,719	2,831	2,922	3,132	3,149
Non Current Assets	2,061	894	1,326	1,326	1,326
Inventory	3,963	4,915	5,540	6,212	6,837
Debtors	6,733	6,552	8,970	9,939	10,314
Loans and Advances	1,409	1,689	2,997	2,997	2,997
Other Current Assets	4,675	6,906	7,768	9,069	10,756
Cash	1,211	2,187	1,297	1,059	4,016
Total Current Assets	18,301	22,748	27,215	29,918	35,562
Current Liabilities	2,567	4,253	4,325	4,721	5,599
Provisions	-	1,407	1,800	1,800	1,800
Total Current Liabilities	13,939	16,765	19,532	21,520	25,523
Net Current Assets	4,362	5,983	7,683	8,398	10,039
Total Assets	9,144	11,460	13,976	14,901	16,559

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					
₹ crore					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	1,794	2,065	2,349	2,751	3,279
Depreciation	350	366	380	490	559
Interest	3	6	5	5	5
Cash Flow before WC changes	2,147	2,438	2,734	3,245	3,843
Changes in inventory	492	(953)	(624)	(672)	(625)
Changes in debtors	(1,364)	181	(2,418)	(969)	(375)
Changes in loans & Advances	178	(280)	(1,308)	-	-
Changes in other current assets	(1,408)	(2,231)	(862)	(1,301)	(1,687)
Net Increase in Current Assets	(2,130)	(3,472)	(5,357)	(2,941)	(2,687)
Changes in creditors	994	1,686	71	396	878
Changes in provisions	96	(1,133)	73	56	88
Net Inc in Current Liabilities	2,591	2,826	2,767	1,988	4,002
Net CF from Operating activities:	2,608	1,792	144	2,292	5,159
Changes in deferred tax assets	(26)	34	(157)	-	-
(Purchase)/Sale of Fixed Asset:	(263)	(478)	(472)	(700)	(500)
Net CF from Investing activities	(346)	341	(807)	(700)	(500)
Dividend and Dividend Tax	(910)	(1,023)	(443)	(1,614)	(1,614)
Net CF from Financing Activities:	(944)	(1,158)	(227)	(1,830)	(1,702)
Net Cash flow	1,318	976	(890)	(238)	2,957
Opening Cash/Cash Equivalent	(107)	1,211	2,187	1,297	1,059
Closing Cash/ Cash Equivalent	1,211	2,187	1,297	1,059	4,016

*calculated, Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
EPS	2.5	2.8	3.2	3.8	4.5
Cash per Share	1.7	3.0	1.8	1.4	5.5
BV	12.3	13.7	16.5	17.7	20.0
Dividend per share	1.0	1.2	0.5	1.8	1.8
Dividend payout ratio	42%	41%	16%	49%	41%
EBITDA Margin	21.1	22.6	21.6	22.1	22.2
PAT Margin	14.2	14.9	15.6	15.4	15.5
RoE	19.9	20.7	19.5	21.2	22.4
RoCE	27.4	29.4	26.1	28.4	30.0
RoIC	30.3	36.1	27.1	29.4	39.5
EV / EBITDA	28.2	23.9	23.3	19.3	15.6
P/E	43.6	37.9	33.3	28.4	23.9
EV / Net Sales	6.0	5.4	5.0	4.3	3.5
Sales / Equity	1.4	1.4	1.3	1.4	1.5
Market Cap / Sales	6.1	5.6	5.1	4.3	3.6
Price to Book Value	8.7	7.8	6.5	6.0	5.3
Asset turnover	1.4	1.4	1.3	1.4	1.5
Debtors Turnover Ratio	2.1	2.1	2.0	1.9	2.1
Creditors Turnover Ratio	6.2	4.1	3.6	4.0	4.2
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	3.5	4.4	5.3	5.4	5.0
Quick Ratio	2.7	3.3	4.2	4.2	3.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap		EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
L&T (LARTOU)	2,024	2,175	Buy	284008	56.8	65.0	76.7	35.6	31.1	26.4	8.9	10.2	11.6	12.1	12.7	13.6	
Siemens Ltd	2,924	3,660	Buy	104130	29.5	36.7	50.5	99.2	79.6	57.9	13.9	15.7	19.2	10.1	11.6	14.2	
AIA Engineering (AIAENG)	2,690	3,011	Buy	25372	64.6	79.8	86.0	41.6	33.7	31.3	16.5	17.9	17.1	13.2	14.3	13.6	
Thermax (THERMA)	2,167	2,405	Buy	25821	26.2	38.7	53.4	82.7	56.0	40.6	11.3	15.4	18.7	8.9	12.0	14.6	
KEC International (KECIN)	439	542	Buy	11287	12.9	16.0	31.9	34.0	27.4	13.8	11.9	13.9	20.3	10.6	11.1	18.6	
Greaves Cotton (GREAVE)	151	209	Buy	3491	0.7	3.5	3.6	213.3	42.8	42.2	2.5	9.4	10.7	1.3	6.7	7.7	
Elgi Equipment (ELGEQU)	485	474	Hold	15370	5.7	6.6	9.1	84.9	73.6	53.2	18.9	17.8	21.0	18.7	18.5	21.1	
Bharat Electronics (BHAELE)	107	135	Buy	78215	3.2	3.8	4.5	33.4	28.2	23.8	26.1	28.4	30.0	19.5	21.2	22.4	
Cochin Shipyard (COCSHI)	540	445	Buy	7103	42.9	38.6	42.3	12.6	14.0	12.8	10.9	12.5	12.7	12.7	10.8	11.1	
SKF (SKFIND)	4,400	4,920	Buy	21753	77.0	104.8	122.9	57.1	42.0	35.8	26.0	29.8	30.1	20.6	22.7	22.4	
Timken India (TIMIND)	2,998	3,561	Buy	22551	43.5	61.3	71.2	68.9	48.9	42.1	25.3	36.2	42.0	19.7	27.9	32.2	
NRB Bearing (NRBBEA)	169	220	Buy	1638	7.8	9.2	12.1	21.7	18.4	14.0	15.0	15.3	19.2	12.6	12.6	14.8	
Action Construction (ACTCON)	308	365	Buy	3668	8.8	13.9	18.2	35.0	22.2	16.9	23.0	24.0	25.8	13.9	17.1	18.3	
Data Patterns (DATPAT)	1327	1,280	Buy	6885	18.1	22.2	30.4	73.3	59.8	43.6	23.8	24.9	28.1	16.4	18.4	20.9	
HAL (HINAER)	2,529	2,860	Buy	84567	151.9	130.9	143.1	16.6	19.3	17.7	27.4	30.6	30.8	26.3	23.2	23.4	
ABB (ABB)	3,047	3,275	Buy	64568	25.5	38.9	43.7	119.6	78.4	69.8	45.0	49.2	64.9	11.2	13.0	17.6	
Ador Welding (ADOWEL)	845	890	Buy	1149	33.2	37.5	49.3	25.4	22.5	17.1	19.9	23.8	26.8	13.6	17.1	19.3	
Bharat Dynamics (BHADYN)	958	1,068	Buy	17558	27.3	33.0	42.7	31.0	25.6	19.8	24.6	24.7	27.9	17.3	17.7	20.0	
Mazagon Dock (MAZDOC)	636	562	Buy	12827	30.3	31.2	40.1	27.9	27.1	21.1	20.0	18.1	20.9	16.1	14.6	16.6	

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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