

January 30, 2023

Q3FY23 Result 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)	18.6	15.2	12.7	10.8
PE (x)	29.3	24.1	20.1	17.4
P/BV (x)	5.8	5.1	4.5	4.0

Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.115 / Rs.62
Sensex / Nifty	59,331 / 17,604
Market Cap	Rs.689bn/ \$ 8,456m
Shares Outstanding	7,310m
3M Avg. Daily Value	Rs.1608.12m

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	(5.9)	3.6	38.1
Relative	(4.0)	(3.5)	34.6

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Decent quarterly performance

Quick Pointers:

- Order book to sales ratio stands healthy at 2.9x TTM revenue.
- 9MFY23 EBITDA margins expanded 49bps YoY, due to better absorption of fixed overhead.

Bharat Electronics (BEL) reported decent quarterly performance with revenue growth of 11.8% YoY to Rs41.3bn and PAT growth of 2.6% YoY to ~Rs6bn. EBITDA margins declined 160bps YoY to 20.7% in Q3FY23, despite gross margins improvement of ~110bps YoY to 41.5%. Implied order inflows came in at Rs13.7bn (down ~76% YoY on high base) in Q3FY23, while order book stands at Rs501.2bn (2.9x TTM revenue). Order pipeline remains healthy from defence (Akash Prime, HIMSHAKTI EWS etc.) as well as non-defence segment. Earlier management had guided ~15% revenue growth with EBITDA margin of ~20-23% and order inflows of ~Rs180-200bn for FY23.

We remain positive on long term growth story of BEL given 1) strong order backlog & order pipeline 2) diversification in newer business verticals like, medical equipment's, hydrogen fuel cell, EV batteries etc., 3) focus on export markets and 4) government focus on product indigenization etc. We expect Revenue and PAT CAGR of 16.6%/19.1% between FY22-FY25E. The stock is currently trading at PE of 24.1x/20.1x/17.4x FY23/24/25E. Maintain 'BUY' with TP of Rs125 (same as earlier) valuing it at 23x FY25E EPS.

EBITDA margins improves 49bps YoY in 9MFY23: Standalone revenue grew ~11.8% YoY to Rs~41.3bn (PL estimate of Rs42.3bn), led by healthy order book execution. EBITDA came in at Rs8.5bn up 3.8% YoY (PL estimate ~Rs9.1bn), while EBITDA margins declined 160bps YoY to 20.7% in Q3FY23 (despite gross margins improving by 110bps on YoY to 41.5%) mainly due to higher other manufacturing expenses (up 75.8% YoY) on a low base. PAT came in at ~Rs6bn, up 2.6% YoY (PL estimate Rs6.6bn) partly impacted due to higher interest cost at Rs97mn vs Rs2mn in Q3FY22. For 9MFY23, revenue grew 24.5% YoY to Rs111.9bn. EBITDA grew ~27.6% YoY to Rs22.2bn, while EBITDA margin expanded 49bps YoY to 19.9%. PAT grew 36% YoY to Rs16.4bn.

Order book of Rs501.bn provides revenue visibility: As on Q3FY23 order book stands at Rs501.2bn, 2.9x TTM revenue (down 11.4% YoY). Order pipeline remains healthy from defence as well as non-defence segment including defence orders for Akash Prime, HIMSHAKTI EWS (Electronic warfare system), Rudra radar, AMC order for Akash, Automated Air Defence Control & Reporting System (ADC&RS) and EW suits for SU-30. while on Civil side orders are expected for Air Traffic Management System, Homeland security and E-Mobility segment. In Q4FY23 order inflows would be a key monitorable, given 9MFY23 inflows of ~Rs35bn and management guidance of Rs180-200bn for FY23.

Exhibit 1: Healthy revenue growth of 11.8% YoY

Y/e March	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY gr. (%)	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Revenue	36,937	63,249	31,128	39,458	41,310	11.8	4.7	111,896	89,889	24.5
Total Revenues	36,937	63,249	31,128	39,458	41,310	11.8	4.7	111,896	89,889	24.5
Expenditure	28,716	47,571	25,993	30,901	32,775	14.1	6.1	89,669	72,474	23.7
<i>as % of sales</i>	<i>77.7</i>	<i>75.2</i>	<i>83.5</i>	<i>78.3</i>	<i>79.3</i>			<i>80.1</i>	<i>80.6</i>	
Consumption of RM	22,002	36,811	18,085	22,383	24,157	9.8	7.9	64,624	52,215	23.8
<i>as % of sales</i>	<i>59.6</i>	<i>58.2</i>	<i>58.1</i>	<i>56.7</i>	<i>58.5</i>			<i>57.8</i>	<i>58.1</i>	
Employee Cost	5,039	5,778	5,764	5,955	5,674	12.6	(4.7)	17,393	15,316	13.6
<i>as % of sales</i>	<i>13.6</i>	<i>9.1</i>	<i>18.5</i>	<i>15.1</i>	<i>13.7</i>			<i>15.5</i>	<i>17.0</i>	
Other expenditure	1,675	4,983	2,145	2,563	2,944	75.8	14.9	7,652	4,943	54.8
<i>as % of sales</i>	<i>4.5</i>	<i>7.9</i>	<i>6.9</i>	<i>6.5</i>	<i>7.1</i>			<i>6.8</i>	<i>5.5</i>	
EBITDA	8,221	15,678	5,135	8,558	8,535	3.8	(0.3)	22,227	17,414	27.6
Depreciation	929	1,010	941	1,042	1,008	8.5	(3.3)	2,991	2,792	7.1
EBIT	7,292	14,668	4,194	7,516	7,527	3.2	0.1	19,237	14,622	31.6
Other Income	593	638	1,597	750	575	(3.1)	(23.4)	2,922	1,698	72.1
Interest	2	41	10	17	97	5,305.6	459.2	125	8	1,461.3
PBT	7,883	15,266	5,781	8,249	8,004	1.5	(3.0)	22,034	16,312	35.1
Total Tax	2,050	3,848	1,466	2,138	2,017	(1.6)	(5.7)	5,621	4,241	32.5
Adjusted PAT	5,834	11,418	4,315	6,111	5,988	2.6	(2.0)	16,413	12,071	36.0
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	5,834	11,418	4,315	6,111	5,988	2.6	(2.0)	16,413	12,071	36.0
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	5,834	11,418	4,315	6,111	5,988	2.6	(2.0)	16,413	12,071	36.0
Adjusted EPS	0.8	1.6	0.6	0.8	0.8	2.6	(2.0)	2.2	1.7	36.0
Margins (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	bps	bps	9MFY23	9MFY22	bps
EBIDTA	22.3	24.8	16.5	21.7	20.7	(160)	(103)	19.9	19.4	49
EBIT	19.7	23.2	13.5	19.0	18.2	(152)	(83)	17.2	16.3	92
EBT	21.3	24.1	18.6	20.9	19.4	(197)	(153)	19.7	18.1	154
PAT	15.8	18.1	13.9	15.5	14.5	(130)	(99)	14.7	13.4	124
Effective Tax rate	26.0	25.2	25.4	25.9	25.2	(81)	(73)	25.5	26.0	(49)

Source: Company, PL

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 Inv. 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

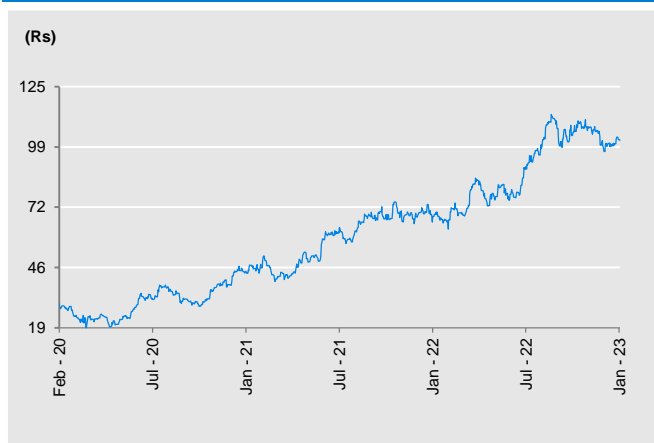
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	3.2	3.9	4.7	5.4
CEPS	3.7	4.5	5.3	6.1
BVPS	16.4	18.4	20.9	23.7
FCF	4.9	4.7	4.5	4.7
DPS	1.5	1.9	2.2	2.6
Return Ratio(%)				
RoCE	25.7	27.6	29.2	30.0
ROIC	55.9	69.4	68.5	67.2
RoE	20.6	22.5	23.8	24.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.7)	(0.6)	(0.6)
Net Working Capital (Days)	198	215	207	200
Valuation(x)				
PER	29.3	24.1	20.1	17.4
P/B	5.8	5.1	4.5	4.0
P/CEPS	25.3	20.9	17.7	15.4
EV/EBITDA	18.6	15.2	12.7	10.8
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	04-Jan-23	BUY	125	100
2	16-Nov-22	BUY	125	107
3	08-Nov-22	BUY	125	110
4	31-Oct-22	BUY	125	107
5	27-Oct-22	BUY	125	108
6	20-Oct-22	BUY	125	106
7	04-Oct-22	BUY	98	102
8	21-Jul-22	BUY	295	269
9	18-Jul-22	BUY	285	246
10	05-Jul-22	BUY	265	230

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	1,834	1,789
3	Bharat Electronics	BUY	125	100
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	495	474
10	Larsen & Toubro	BUY	2,384	2,089
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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