Retail Equity Research

Bharat Electronics Ltd.

Defence Electronics

BUY

12 Months Investment Period | Rating as per Large Cap

BSE CODE : 500049 | NSE CODE: BEL
BLOOMBERG CODE: BHE:IN | SENSEX : 58,991

CMP Rs.98 TARGET Rs.112 RETURN 15% ↑
(Closing: 31-03-2023)

KEY CHANGES: *TARGET* ↑ *RATING* ↑ *EARNINGS* ↓

Order inflows to pick-ups...

Bharat Electronics Ltd. (BEL) is a Navaratna enterprise with 37% market share in Indian defence electronics. BEL's core capabilities are in radar & weapons systems, defence communication, & electronic warfare.

- **9MFY23 revenue grew by 25% YoY, PAT was up by 36% YoY, led by better execution.**
- **9MFY23 EBITDA margin improved by 50bps YoY to 20.0%, and absolute EBITDA grew by 28% YoY.**
- **The order backlog at the end of Q3FY23 was at Rs.50,116cr (3.3x FY22 sales), providing strong earning visibility for the next 3 years.**
- **The order book is boosted by ~Rs.16,000cr worth of orders towards the end of the year, bringing the total order backlog to Rs.66,410cr (4.4x FY22 sales). The cumulative order intake for the year was Rs.19,800cr.**
- **We maintain our positive view in the long term, considering strong order book visibility, execution prowess, and a stable margin profile ~22%. While PAT continues to grow at a 16% CAGR over FY23E-25E.**
- **We value BEL at a P/E of 21x on FY25E, and given recent order wins, upgrade to Buy from Hold rating with a target price of Rs.112.**

Order backlog to boosted by Rs.16,000cr worth orders..

9MFY23 order inflow was down 70% YoY at Rs.3,551cr, which was lower than expected due to delays in approvals. However, last week BEL booked Rs.1,294cr worth of orders bringing the total order backlog to Rs.66,410cr (4.4x FY22 sales). Major orders won by the Army include the EW suite, AMC Akash, WLRs, automated air defence control, instant fire detection & supressing systems. The Navy's order includes SDRs, communication equipment, Sarang, etc. Supply of medium power radar and digital radar warning receiver (RWR) for Indian Air Force, worth, Rs.3800cr. With these order inflows, BEL is expected to meet the order inflow guidance for FY23E of Rs.20,000cr. BEL is diversifying into non-defence sectors such as healthcare, smart city projects, airports and vehicle charging infra. Management's long-term plan is to increase its non-defence business from 10% to ~25% of total sales.

Execution healthy...

9MFY23 revenue was up by 25% YoY, driven by strong execution, while Q2FY23 revenue grew by 12% YoY, in-line with our expectations given the higher base. Going ahead, we expect execution to remain healthy due to the given execution timeline. We expect revenue to grow at a 14% CAGR over FY23E-25E.

EBITDA margin to improve

EBITDA margin in Q2FY23 was down by 176bps YoY at 20.7% on account of higher costs. Consequently, PAT was flat on a YoY basis. We anticipate that EBITDA margin will be in the range of ~22-22.5% in FY24-25E, owing to higher indigenous content and scale benefits. We expect earnings to grow at a 16% CAGR over FY23E-25E.

Valuations

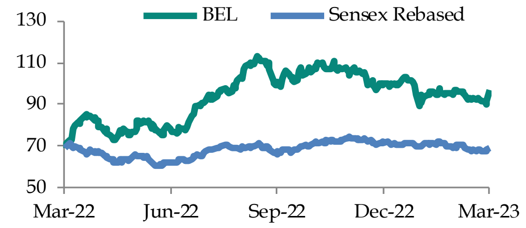
We maintain our long-term positive stance on BEL on account of the government's focus on reducing imports, the rising share of electronics in defence, and its execution capability. We value BEL at a P/E of 21x on FY25E, given recent order wins, upgrade to Buy from Hold rating, with a target price of Rs.112.

Company Data	
Market Cap (cr)	Rs.71,307
Enterprise Value (cr)	Rs.68,351
Outstanding Shares (cr)	731
Free Float	49.0%
Dividend Yield	1.6%
52 week high	Rs.115
52 week low	Rs.68
6m average volume (cr)	2.3
Beta	0.92
Face value	Rs.1

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	51.1	51.1	51.1
FII's	16.0	17.4	17.3
MFs/Institutions	27.8	25.6	25.1
Public	4.7	5.2	5.9
Others	0.4	0.7	0.5
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-1.8%	-3.8%	40.8%
Absolute Sensex	-4.3%	1.9%	-0.3%
Relative Return*	2.5%	-5.7%	41.1%

*over or under performance to benchmark index



Standalone (cr)	FY23E	FY24E	FY25E
Sales	18,097	20,863	23,354
Growth (%)	*18.2*	*15.3*	*11.9*
EBITDA	3,927	4,694	5,255
EBITDA Margin(%)	21.7	22.5	22.5
Adjusted PAT	2,884	3,432	3,898
Growth (%)	*22.8*	*19.0*	*13.6*
Adjusted EPS	3.9	4.7	5.3
Growth (%)	*22.8*	*19.0*	*13.6*
P/E	24.7	20.8	18.3
P/B	1.7	1.4	1.2
EV/EBITDA	17.4	14.6	12.7
ROE (%)	21.9	22.1	21.4
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

(Rs cr)	Q3FY23	Q3FY22	*YoY growth (%)*	9MFY23	9MFY22	*YoY growth (%)*
Sales	**4,131**	**3,694**	***11.8***	**11,190**	**8,989**	***24.5***
EBITDA	**853**	**822**	***3.8***	**2,223**	**1,741**	***27.6***
EBITDA margins	**20.7**	**22.3**	***(160bps)***	**19.9**	**19.4**	***+50bps***
Depreciation	101	93	*8.5*	299	279	*7.1*
EBIT	753	729	*3.2*	1,924	1,462	*31.6*
Interest	10	-	-	12	1	-
Other Income	57	59	*(3.1)*	292	170	*72.1*
Exceptional Items	-	-	-	-	-	-
PBT	800	788	*1.5*	2,203	1,631	*35.1*
Tax	202	205	*(1.6)*	562	424	*32.5*
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	**599**	**583**	***2.6***	**1,641**	**1,207**	***36.0***
Adjustments	-	-	-	-	-	-
Adjusted PAT	**599**	**583**	***2.6***	**1,641**	**1,207**	***36.0***
No. of Shares	**731.0**	**731.0**	-	**731.0**	**731.0**	-
EPS (Rs)	**0.82**	**0.80**	***2.6***	**2.2**	**1.7**	***36.0***

Change in Estimates

	Old estimates			New estimates			Change (%)		
Year / Rs cr	**FY23E**	**FY24E**	**FY25E**	**FY23E**	**FY24E**	**FY25E**	**FY23E**	**FY24E**	**FY25E**
Revenue	18,415	21,098	24,731	18,097	20,863	23,354	*(1.7)*	*(1.1)*	*(5.6)*
EBITDA	3,904	4,747	5,564	3,927	4,694	5,255	*0.6*	*(1.1)*	*(5.6)*
Margins (%)	21.2	22.5	22.5	21.7	22.5	22.5	*50bps*	-	-
Adjusted PAT	2,933	3,433	3,971	2,884	3,432	3,898	*(1.7)*	*(0.0)*	*(1.8)*
EPS	4.0	4.7	5.4	3.9	4.7	5.3	*(1.4)*	*(0.1)*	*(1.3)*

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	**14,064**	**15,314**	**18,097**	**20,863**	**23,354**
% change	*8.8*	*8.9*	*18.2*	*15.3*	*11.9*
EBITDA	**3,181**	**3,309**	**3,927**	**4,694**	**5,255**
% change	*16.5*	*4.0*	*18.7*	*19.5*	*11.9*
Depreciation	366	380	418	484	542
EBIT	**2,815**	**2,929**	**3,509**	**4,210**	**4,712**
Interest	6	5	14	8	8
Other Income	126	234	351	374	493
Share of profit	-	-	-	-	-
PBT	**2,935**	**3,158**	**3,846**	**4,576**	**5,197**
% change	*18.4*	*7.6*	*21.8*	*19.0*	*13.6*
Tax	869	809	961	1,144.0	1,299.3
Tax Rate (%)	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
Reported PAT	**2,065**	**2,349**	**2,884**	**3,432**	**3,898**
Adj.*	-	-	-	-	-
Adj. PAT	**2,065**	**2,349**	**2,884**	**3,432**	**3,898**
% change	*15.1*	*13.7*	*22.8*	*19.0*	*13.6*
No. of shares (cr)	244	244	731	731	731
Adj EPS (Rs)	**2.8**	**3.2**	**3.9**	**4.7**	**5.3**
% change	*15.1*	*13.7*	*22.8*	*19.0*	*13.6*
DPS (Rs)	4.2	4.2	1.4	1.4	1.4
CEPS (Rs)	10.0	11.2	4.5	5.4	6.1

BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	3,016	1,239	2,956	2,995	4,703
Accounts Receivable	6,552	6,103	8,677	10,003	11,197
Inventories	4,955	5,567	7,167	8,094	9,061
Other Cur. Assets	9,520	14,983	10,417	12,009	13,443
Investments	1,331	1,554	1,554	1,554	1,554
Gross Fixed Assets	4,045	4,435	5,185	5,935	6,535
Net Fixed Assets	2,423	2,455	2,786	3,052	3,110
CWIP	351	399	500	500	700
Intangible Assets	443	530	533	533	533
Def. Tax (Net)	463	621	497	497	497
Other Assets					
Total Assets	**29,053**	**33,450**	**35,087**	**39,238**	**44,798**
Current Liabilities	4,602	4,574	4,827	5,286	5,917
Provisions	1,750	2,216	2,033	2,343	2,623
Debt Funds	1	52	-	-	-
Other Liabilities	11,893	14,624	13,895	14,867	16,642
Equity Capital	244	244	731	731	731
Reserves & Surplus	10,564	11,741	13,601	16,010	18,885
Shareholder's Fund	10,808	11,984	14,332	16,741	19,616
Total Liabilities	**29,053**	**33,450**	**35,087**	**39,238**	**44,798**
BVPS	**44**	**49**	**59**	**69**	**81**

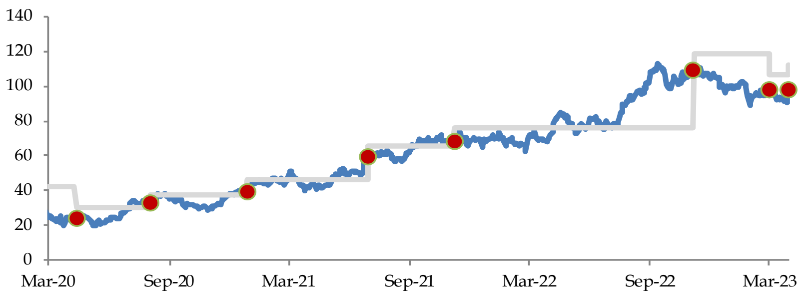
CASH FLOW

Y.E March (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	2,065	2,349	2,884	3,432	3,898
Non-cash adj.	778	262	82	118	58
Changes in W.C	2,260	1,550	(267)	(2,103)	(909)
C.F. Operation	**5,103**	**4,161**	**2,699**	**1,447**	**3,047**
Capital exp.	(466)	(546)	(848)	(750)	(800)
Change in inv.	(2,161)	(4,485)	3	-	-
Other invest.CF	60	178	351	374	493
C.F - Investment	**(2,569)**	**(4,861)**	**(497)**	**(376)**	**(307)**
Issue of equity	-	-	487	-	-
Issue/repay debt	(53)	(54)	(14)	(8)	(8)
Dividends paid	(1,023)	(1,023)	(1,023)	(1,023)	(1,023)
Other finance.CF	(43)	(50)	-	-	-
C.F - Finance	**(1,075)**	**(1,077)**	**(550)**	**(1,031)**	**(1,031)**
Chg. in cash	1,459	(1,777)	1,652	39	1,708
Closing cash	3,016	1,239	2,956	2,995	4,703

RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab & Return					
EBITDA margin (%)	22.6	21.6	21.7	22.5	22.5
EBIT margin (%)	20.0	19.1	19.4	20.2	20.2
Net profit mgn.(%)	14.7	15.3	15.9	16.5	16.7
ROE (%)	20.0	20.6	21.9	22.1	21.4
ROCE (%)	20.5	19.7	22.0	22.1	21.5
W.C & Liquidity					
Receivables (days)	172.4	150.8	149.0	163.4	165.7
Inventory (days)	207.9	215.7	217.7	231.0	231.9
Payables (days)	192.5	188.1	160.7	153.0	151.5
Current ratio (x)	3.8	4.1	4.3	4.3	4.5
Quick ratio (x)	2.1	1.6	2.4	2.5	2.7
Turnover & Leverage					
Gross asset T.O (x)	3.6	3.6	3.8	3.8	3.7
Total asset T.O (x)	0.5	0.5	0.5	0.6	0.6
Int. covge. ratio (x)	463.0	603.9	250.6	526.3	589.0
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	4.9	4.6	3.8	3.3	2.9
EV/EBITDA (x)	21.5	21.2	17.4	14.6	12.7
P/E (x)	34.5	30.4	24.7	20.8	18.3
P/BV (x)	2.2	2.0	1.7	1.4	1.2

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
06-July-18	BUY	44
03-October-18	BUY	32
11-February-19	BUY	31
19-June-19	BUY	42
15-April-20	BUY	30
03-August-20	BUY	37
28-December-20	BUY	46
30-June-21	BUY	66
08-November-21	BUY	76
07-November-22	HOLD	119
02-March-23	HOLD	107
31-March-23	BUY	112

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral		-	

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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ANIL R

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