

BHARAT ELECTRONICS LIMITED

Good numbers in Q1, strong top-line visibility

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BEL reported earnings of ₹5.36 bn, against a yoy profit of ₹4.3 bn while sequentially all the numbers were down as seasonally Q4 is the strongest quarter as bulk of the order execution happens in that quarter. Therefore analysing the numbers on yoy basis is practical. Revenues grew by 12.8% yoy at ₹35.1 bn. EBITDA grew strongly by 29.3% yoy at ₹6.64 bn. On the margins front, EBITDA margins came in at 18.9% which were 240 bps up yoy and were clearly better than BEL's Q1 trend over the past. BEL received strong ₹59 bn of orders in FY 24 so far led by multiple mid-to large-value project awards. In line with past trends, half of the Q1 orders accrued from large-scale projects (₹39bn Akash in Q1FY24), with multiple base orders in the range of ₹3-4bn. This implies that the order book should be surely higher than ₹607 bn at the end of FY24.

Strong defence order pipeline gives us confidence for long term visibility

BEL has received orders worth ₹59bn so far in FY24. These include: 1) Orders for 3rd and 4th regiments of improved Akash Weapon System (AWS) upgrades from BDL worth ₹39.1bn (48.3% of total order value of ₹81bn). The improvements incorporated in AWS include high altitude operation, simultaneous engagement of multiple threats over 360 degrees, missiles fitted with RF seeker and reduced foot print; and 2) orders worth ₹19.8bn for Shakti EW & Sanket MK III (Naval Systems) - estimated at ₹10bn, GBMES & GBUV Com Jammer systems, MKBT systems, IFF-MK-XII crypto modules and upgradation of SDP & Display of Rohini radar, training system for CMS P15B & CAMC for P28 etc. Going ahead, we believe orders from Naval platforms and fuses for Indian Army (long term) will potentially result in an order inflow of ₹200bn. Also, the execution of existing orders is likely to maintain revenue growth at 16-17% through to FY25.

Sizeable opportunities for order-book expansion

Besides near-term opportunity of ₹200bn, we believe MRSAM, QRSAM and ATGM orders in the medium term could add another ₹200bn. In the long term, we believe orders from Tejas Mk1A and Mk2 as well as next-generation corvettes are likely to keep orderbook robust. In our view, BEL is significantly immune to potential delays or lower spending as it has exposure in most major upcoming orders. Hence, the bill-to-book ratio of 3.5x (at the end of FY23) is expected to improve further. Besides, improving indigenisation and fast developing ecosystem for its products imply margins are likely to improve and working capital cycle may remain in check.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Total sales(₹ bn)	153.1	176.5	209.0	243.0
EBITDA margins(%)	21.6%	22.9%	22.3%	23.0%
PAT margins(%)	15.3%	17.0%	16.6%	16.9%
EPS (Rs)	3.2	4.1	4.7	5.6
P/E (x)	39.5	30.9	26.8	22.6
P/BV (x)	7.7	6.8	6.0	5.2
EV/EBITDA (x)	27.7	22.0	18.6	15.4
ROE (%)	19.6%	22.1%	22.4%	23.1%
ROCE (%)	21.0%	25.0%	25.4%	26.5%
Dividend yield (%)	1.1	1.3	1.7	2.0

Rating	BUY
Current Market Price (₹)	125
12 M Price Target (₹)	157
Potential upside (%)	26

Stock Data

Sector :	Defence
FV (₹) :	1
Total Market Cap (₹ bn) :	911
Free Float Market Cap (₹ bn) :	467
52-Week High / Low (₹) :	133 / 87
BSE Code / NSE Symbol :	500049 / BEL
Bloomberg :	BHE IN

Shareholding Pattern

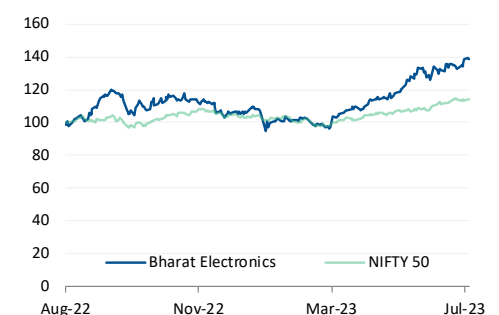
(%)	Jun-23	Mar-23	Dec-22	Sep-22
GOI	51.14	51.14	51.14	51.14
FPIs	17.35	16.42	17.28	17.36
MFs	19.33	20.07	20.56	21.19
Insurance	4.28	4.14	3.51	3.55
Others	7.90	8.23	7.51	6.76

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
BEL	3.7%	26.3%	43.4%	38.8%
Nifty 50	2.8%	9.2%	12.0%	13.8%

* To date / current date : August 1, 2023

BEL vs Nifty 50

Non-defense segment also to provide significant opportunities

To reduce dependence on defense, BEL has been focusing on diversifying into new and allied business verticals such as Medical Electronics, EVMs, Homeland Security, Metros, Energy Storage, Unmanned system, Space electronics and systems, Software Service (SAAS-opportunity ₹50bn), Ammunition (₹5bn/year opportunity), etc. Along with this, BEL is working on new businesses fetched in FY23 in the form of Civil orders like the Chennai Metro for door screening, Triton deal secured, ATMS (Air Traffic Management System), E-mobility LOI worth ₹80 bn for railways, UP100 smart city, EV charger installation at highways, EV battery packs etc. EVM opportunity can be big in FY25 considering May 24 general elections in India. Non-defense segment contributed 6% of total revenue in Q1 FY24. BEL expects the revenue contribution of non-defense to improve from here, but we believe defense business to always enjoy the lion's share in the business. Exports revenues in the quarter came in at ₹870 mn. The company maintained its FY24E exports guidance at USD90 mn with the aid of MoD in various discussions with friendly countries. It expects exports to continue to contribute 10% of total revenues in next 2-3 years from current 2.4% as it is expanding presence in international markets and has participated in many tenders.

Margin outlook remains good

BEL has a strong indigenous portfolio of products (82-85%), which has reduced dependence on imports and other commodity prices. Also, BEL intends to add nearly 1,000 employees for new competencies. It intends to reduce employee cost without compromising on R&D (6-7% of topline). Furthermore, now that the chip shortage issue behind them, we can expect strong surge in order delivery leading to higher capacity utilisation thus providing operating leverage. Also reducing dependence on nominated programs through higher contribution from services, non-defence and exports orders shall augur well for the margins. Therefore, we believe EBITDA margins in FY 24E should be in the 22-23% range in line with management guidance of 21-23% and gross margins to be in 40-42% range. For FY24E and FY25E as well we expect margins to be better on improved product mix and stable input costs.

Quarterly Standalone

YE Mar (₹ mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
Total net sales	35,106	64,565	-45.6%	31,128	12.8%
RM cost	19,844	33,464	-40.7%	18,085	9.7%
Employee cost	6,237	5,584	11.7%	5,764	8.2%
Other expenses	2,383	7,270	-67.2%	2,144	11.2%
EBITDA	6,642	18,247	-63.6%	5,135	29.3%
<i>EBITDA Margins %</i>	18.9%	28.3%	(940 bps)	16.5%	240 bps
Other income	1,417	678	108.9%	1,597	-11.3%
Depreciation	1,013	1,090	-7.1%	941	7.6%
Interest	11	23	-53.5%	10	4.9%
PBT	7,036	17,812	-60.5%	5,782	21.7%
Tax	1,729	4,161	-58.4%	1,466	17.9%
PAT	5,306	13,651	-61.1%	4,316	23.0%
<i>PAT margins %</i>	15.1%	21.1%	(60 bps)	13.9%	120 bps
Exceptional items	-	-	N/A	-	N/A
Adjusted PAT	5,306	13,651	-61.1%	4,316	23.0%
<i>APAT margins %</i>	15.1%	21.1%	(60 bps)	14.1%	120 bps

Source: Company, LKP Research

Outlook and Valuation

We believe BEL is set to gain both from steady execution and order book accretion. In our view, with its presence in almost all the upcoming major orders over the next few years, BEL is the best play in defence space. We expect the execution of the recently won orders to commence from FY25, resulting in comfortable bill-to-book position in FY24. Taking cognisance of robust order inflow as well as book-to-bill position, we raise our P/E multiple to 28x (earlier 25x). We maintain BUY rating on BEL with a revised TP of ₹157.

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	153,138	176,462	209,000	243,000
Raw Material Cost	89,025	98,088	119,757	136,080
Employee Cost	21,094	22,977	29,260	36,450
Other Exp	9,926	14,921	13,376	14,580
EBITDA	33,092	40,476	46,607	55,890
EBITDA Margin(%)	21.6%	22.9%	22.3%	23.0%
Depreciation	3,802	4,079	4,468	5,428
EBIT	29,291	36,397	42,139	50,462
EBIT Margin(%)	19.1%	20.6%	20.2%	20.8%
Other Income	2,336	3,600	4,200	4,400
Interest	49	148	150	160
PBT	31,578	39,849	46,189	54,702
PBT Margin(%)	20.6%	22.6%	22.1%	22.5%
Tax	8,089	9,782	11,547	13,676
Adjusted PAT	23,489	30,067	34,642	41,027
APAT Margins (%)	15.3%	17.0%	16.6%	16.9%
Exceptional items	0	0	0	0
PAT	23,489	30,067	34,642	41,027
PAT Margins (%)	15.3%	17.0%	16.6%	16.9%

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
Per Share Data (₹)				
Adj. EPS	3.2	4.1	4.7	5.6
CEPS	3.7	4.7	5.4	6.4
BVPS	16.4	18.6	21.2	24.3
DPS	1.4	1.7	2.1	2.5
Growth Ratios(%)				
Total revenues	8.9%	15.2%	18.4%	16.3%
EBITDA	21.6%	22.9%	22.3%	23.0%
EBIT	4.1%	24.3%	15.8%	19.8%
PAT	13.7%	28.0%	15.2%	18.4%
Valuation Ratios (X)				
PE	39.5	30.9	26.8	22.6
P/CEPS	34.0	27.2	23.7	20.0
P/BV	7.7	6.8	6.0	5.2
EV/Sales	6.0	5.0	4.1	3.5
EV/EBITDA	27.7	22.0	18.6	15.4
Operating Ratios (Days)				
Inventory days	132.0	132.5	134.0	135.0
Receivable Days	145.5	145.2	147.0	150.0
Payables day	103.1	95.0	90.0	85.0
Net Debt/Equity (x)	0.00	0.00	0.00	0.00
Profitability Ratios (%)				
ROCE	21.0%	25.0%	25.4%	26.5%
ROE	19.6%	22.1%	22.4%	23.1%
Dividend payout ratio (%)	43.6%	41.3%	45.0%	45.0%
Dividend yield(%)	1.1	1.3	1.7	2.0

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities				
Equity Share Capital	2,437	7,309	7,309	7,309
Reserves & Surplus	117,406	128,510	147,563	170,128
Total Networth	119,843	135,819	154,872	177,437
Total debt	0	0	0	0
Long term provisions	18,001	8,390	9,890	11,890
Deferred tax assets/liabilities	615	602	602	602
Other long term liabilities	721	645	645	645
Current Liab & Prov				
Trade payables	43,245	45,916	51,534	56,589
Short term provs+ borrowings	4,156	6,232	6,232	6,232
Other current liabilities	147,919	152,940	156,940	160,940
Total current liab and provs	195,320	205,088	214,706	223,761
Total Equity & Liabilities	334,499	350,544	380,715	414,334
Assets				
Net block	24,545	25,963	27,495	34,067
Capital WIP	3,986	3,616	4,616	5,616
Intangible assets under devt				
Non current investments	15,843	6,901	6,901	6,901
Long term loans and advances	6,480	5,093	5,093	5,093
Other non current assets	6,778	4,384	4,384	4,384
Total fixed assets	62,928	51,512	54,044	61,616
Cash, cash equiv & bank deposits	74,991	82,346	92,033	98,390
Inventories	55,396	64,061	68,061	72,061
Trade receivables	61,034	70,220	84,173	99,863
Other current assets	80,151	82,404	82,404	82,404
Total current Assets	271,571	299,031	326,670	352,718
Total Assets	334,499	350,544	380,715	414,334

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	31,578	39,848	46,189	54,702
Depreciation	3,802	4,079	4,468	5,428
Interest	18	111	150	160
Chng in working capital	15,507	(19,777)	(6,835)	(8,636)
Tax paid	(8,024)	(9,150)	(11,547)	(13,676)
Other operating activities	(1,264)	(3,560)	(242)	0
Cash flow from operations (a)	41,616	11,552	32,183	37,979
Capital expenditure	(5,535)	(5,638)	(7,000)	(13,000)
Chng in investments	(2,231)	8,898	0	0
Other investing activities	(40,840)	24,577	13,705	0
Cash flow from investing (b)	(48,606)	27,837	6,705	(13,000)
Free cash flow (a+b)	(6,989)	39,389	38,888	24,979
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	(10,233)	(12,424)	(15,589)	(18,462)
Interest paid	(18)	111	(150)	(160)
Other financing activities	(521)	(586)	0	0
Cash flow from financing (c)	(10,772)	(12,899)	(15,739)	(18,622)
Net chng in cash (a+b+c)	(17,761)	26,490	23,149	6,357
Closing cash & cash equivalents	12,394	38,884	62,033	68,390

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