Bharat Electronics

Defense

Steady execution; robust orderbook accretion

Bharat Electronics (BEL) has reported a healthy Q1FY24 performance. Key points: 1) Strong execution as revenue grew 12% YoY on a high base of Q1FY23; 2) EBITDA margin came in at 19%, up 240bps YoY; 3) orderbook as of Jun’23 end stood at record INR 653.6bn, implying book to bill of comfortable 3.7x; and 4) order inflow of INR 81.1bn in Q1FY24 with good visibility for meeting the guidance of INR 200bn of inflow in FY24. Going ahead, we see BEL at a vantage position with big-ticket orders for QRSAM, MRSAM and naval platforms due in FY25 that would provide a multi-year revenue growth opportunity in the medium term. We maintain BUY on BEL with an unchanged TP of INR 150 on 27x FY25 EPS and recommend it as our top pick in the defence space.

Solid performance; robust orderbook accretion

BEL’s Q1FY24 PAT grew 47% YoY at INR 5.4bn led by sound execution. Key points: 1) Revenue growth of 12% YoY was aided by the ongoing execution of LRSAM orders; 2) execution of EVM orders worth INR 8-9bn resulted in non-defence revenue increasing to 25% of overall (normalised range: 15-20%); 3) EBITDA margin of 19% was up 240bps led by execution efficiency; and 4) orderbook at Jun’23-end stood at INR 653.6bn, led by fresh orders worth INR 81.1bn in Q1FY24, highest among all DPSUs. Going ahead, management expects to achieve its FY24 guidance of: Revenue growth- 17%; order inflow-INR 200bn; gross margin- 42-43% and EBITDA margin- 21-23%. Furthermore, management expects order accretion in FY25 to be even higher led by QRSAM and submarine-related orders.

Good visibility on earnings growth

BEL is a defence distribution agnostic play with share in all the high-value upcoming orders such as QRSAM, MRSAM, naval platforms, submarines and fighter jet plans. We believe these platforms can provide multi-year order inflow in excess of INR 250-300bn p.a, thus maintaining the revenue growth. Besides, improving execution efficiencies would lead to margins sustaining at 21-23%. Furthermore, ongoing indigenisation endeavours such as fitting Uttam Mk3 radar on Su-30MKI also provide additional growth opportunities for the company.

Financial Summary

<table>
<thead>
<tr>
<th>Y/E March (INR mn)</th>
<th>FY22A</th>
<th>FY23A</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenue</td>
<td>1,53,682</td>
<td>1,77,344</td>
<td>2,07,365</td>
<td>2,42,406</td>
</tr>
<tr>
<td>EBITDA</td>
<td>33,409</td>
<td>40,859</td>
<td>46,062</td>
<td>55,712</td>
</tr>
<tr>
<td>EBITDA Margin (%)</td>
<td>21.7%</td>
<td>23.0%</td>
<td>22.2%</td>
<td>23.0%</td>
</tr>
<tr>
<td>Net Profit</td>
<td>24,002</td>
<td>29,862</td>
<td>33,705</td>
<td>40,755</td>
</tr>
<tr>
<td>EPS (Rs)</td>
<td>3.3</td>
<td>4.1</td>
<td>4.6</td>
<td>5.6</td>
</tr>
<tr>
<td>EPS % Chg YoY</td>
<td>13.8%</td>
<td>24.9%</td>
<td>13.9%</td>
<td>21.1%</td>
</tr>
<tr>
<td>P/E (x)</td>
<td>40.4</td>
<td>32.4</td>
<td>28.4</td>
<td>23.5</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>25.1</td>
<td>20.5</td>
<td>18.1</td>
<td>14.8</td>
</tr>
<tr>
<td>RoCE (%)</td>
<td>19.5</td>
<td>19.6</td>
<td>18.5</td>
<td>19.6</td>
</tr>
<tr>
<td>RoE (%)</td>
<td>21.5</td>
<td>24.0</td>
<td>25.0</td>
<td>28.0</td>
</tr>
</tbody>
</table>

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

01-07-2023: Company update
21-06-2023: Company update

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Please refer to important disclosures at the end of this report
Outlook and valuations: Formidable earnings momentum in sight

We believe BEL stands to gain from various high-value orders, particularly, in all the platforms- missiles, fighter jets and submarines. These are likely to ensure a smooth runway for steady earnings growth while maintaining book to bill at a healthy 2.5-3x. We maintain BUY on BEL with an unchanged TP of INR 150 on 27x FY25E EPS. Key risks to our thesis: 1) Delay in ordering by third parties; 2) delay in development of sub-components by vendors; 3) reduced spending in defence space.

Q1FY24 Concall: Key takeaways

- **Guidance**: Management retained its FY24 guidance on key parameters: 1) Order inflow likely at INR 200bn; 2) revenue growth of 17% YoY; 3) gross margin at 42-43% and; 4) EBITDA margin at 21-22%.

- Order inflow for next year likely to be much higher compared to current year owing to QRSAM and submarine programme.

- Management is confident of maintaining book to bill at 2.5-3x at all times.

- **Likely orders in FY24**: Fuses for Indian Army- INR 45bn, EW for ship bases systems- INR 15bn and naval platforms- INR 60bn.

- LRSAM execution is on track. Almost INR 30bn will be executed in FY24.

- **Fuses**: Management expects order to be placed over the next six months as all the formalities have been completed. Currently, the order is with MoD.

- **QRSAM**: Management mentioned that the trial report has been sent to the armed forces. Currently, AON proposals and other modalities are being worked on. It further added that this order may come in FY25.

- Management clarified that order inflow is not a constraint for revenue growth. For instance, while LRSAM orders might taper off this year, they will be replaced by Akash Weapon Systems and QRSAM.

- Exports: Management is targeting USD 90-100mn in FY24. In Q1FY24, export revenue of INR 87mn has been achieved.

- Capex: Management has maintained its guidance at INR 8-9bn mainly for developing infrastructure for future growth.

- Fuses facility at Nagpur: Management mentioned that the first phase of the facility has been built. Currently, tendering for building is in the process. Of INR 2bn budgeted for the project, almost INR 1bn has been spent.

- Non-defence portion forms 6% of orderbook. The execution period of non-defence orders is 1-2 years.

- EVM revenue: The company booked EVM revenue of INR 8-9bn in Q1FY24 resulting in non-defence portion rising to 25% in Q1FY24. For FY24, management expects non-defence to contribute 15-20% of revenue.

- Q1FY24 employee cost: Employee cost rose by 8% YoY owing to the usual increase in DA. Besides, there was higher contractual manpower deployed. There was no actuarial impact in Q1FY24.

- Provisions: No write-back from the provisions taken in the last two quarters.

- Other income: Dividend from subsidiaries stood at INR 20mn compared to INR 780mn YoY. Interest income has increased to INR 1.32bn from INR 780mn YoY.

- Receivable and cash balance at similar level as of Mar’23-end.
Exhibit 1: BEL standalone Q1FY24 result review

<table>
<thead>
<tr>
<th>(INR mn)</th>
<th>Q1FY23</th>
<th>Q2FY23</th>
<th>Q3FY23</th>
<th>Q4FY23</th>
<th>Q1FY24</th>
<th>% Chg YoY</th>
<th>% Chg QoQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>31,128</td>
<td>39,458</td>
<td>41,310</td>
<td>64,566</td>
<td>35,108</td>
<td>12.8</td>
<td>(45.6)</td>
</tr>
<tr>
<td>Other Operating income</td>
<td>492</td>
<td>496</td>
<td>849</td>
<td>1,291</td>
<td>642</td>
<td>30.4</td>
<td>30.4</td>
</tr>
<tr>
<td>Sales Ex Other Op income</td>
<td>30,636</td>
<td>38,962</td>
<td>40,461</td>
<td>63,275</td>
<td>34,467</td>
<td>12.5</td>
<td>(45.5)</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>13,043</td>
<td>17,076</td>
<td>17,153</td>
<td>31,101</td>
<td>15,264</td>
<td>17.0</td>
<td>(50.9)</td>
</tr>
<tr>
<td>Gross Margin (%)</td>
<td>41.9</td>
<td>43.3</td>
<td>41.5</td>
<td>48.2</td>
<td>43.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Margin ex Other Op Income</td>
<td>12,551</td>
<td>16,580</td>
<td>16,304</td>
<td>29,810</td>
<td>14,623</td>
<td>16.5</td>
<td>(50.9)</td>
</tr>
<tr>
<td>Gross Margin ex Other Op Income (%)</td>
<td>41.0</td>
<td>42.6</td>
<td>40.3</td>
<td>47.1</td>
<td>42.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Costs</td>
<td>5,764</td>
<td>5,955</td>
<td>5,674</td>
<td>5,584</td>
<td>6,237</td>
<td>8.2</td>
<td>11.7</td>
</tr>
<tr>
<td>EBITDA</td>
<td>5,135</td>
<td>8,558</td>
<td>8,535</td>
<td>18,248</td>
<td>6,644</td>
<td>29.4</td>
<td>(63.6)</td>
</tr>
<tr>
<td>EBITDA Margin (%) on net sales</td>
<td>16.5</td>
<td>21.7</td>
<td>20.7</td>
<td>28.3</td>
<td>18.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA Ex Other Op Income</td>
<td>4,643</td>
<td>8,062</td>
<td>7,686</td>
<td>16,957</td>
<td>6,003</td>
<td>29.3</td>
<td>(64.6)</td>
</tr>
<tr>
<td>EBITDA Ex Other Op Income (%)</td>
<td>15.2</td>
<td>20.7</td>
<td>19.0</td>
<td>26.8</td>
<td>17.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAT</td>
<td>4,315</td>
<td>6,111</td>
<td>5,988</td>
<td>13,654</td>
<td>5,308</td>
<td>23.0</td>
<td>(61.1)</td>
</tr>
</tbody>
</table>

Source: I-Sec research, Company data

Exhibit 2: BEL consolidated Q1FY24 result review

<table>
<thead>
<tr>
<th>(INR mn)</th>
<th>Q1FY24</th>
<th>FY23</th>
<th>% Chg YoY</th>
<th>Q4FY23</th>
<th>FY22</th>
<th>% Chg YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>34,654</td>
<td>46,473</td>
<td>12.2</td>
<td>64,566</td>
<td>77,133</td>
<td>(15.0)</td>
</tr>
<tr>
<td>Total Income</td>
<td>35,329</td>
<td>46,473</td>
<td>12.5</td>
<td>64,791</td>
<td>77,133</td>
<td>(15.4)</td>
</tr>
<tr>
<td>Change in Stock</td>
<td>662</td>
<td>(2,330)</td>
<td>340</td>
<td>(3,933)</td>
<td>(2,803)</td>
<td></td>
</tr>
<tr>
<td>Consumption of Material</td>
<td>18,270</td>
<td>18,577</td>
<td>(1.7)</td>
<td>31,005</td>
<td>34,931</td>
<td>(12.1)</td>
</tr>
<tr>
<td>Purchase of traded goods</td>
<td>971</td>
<td>1,960</td>
<td>(50.5)</td>
<td>2,176</td>
<td>3,100</td>
<td>(30.5)</td>
</tr>
<tr>
<td>Employee Costs</td>
<td>6,287</td>
<td>5,811</td>
<td>8.2</td>
<td>5,636</td>
<td>5,240</td>
<td>8.2</td>
</tr>
<tr>
<td>Other Expenditure</td>
<td>2,415</td>
<td>2,164</td>
<td>11.6</td>
<td>7,316</td>
<td>6,831</td>
<td>7.2</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>28,604</td>
<td>26,182</td>
<td>9.3</td>
<td>46,473</td>
<td>40,859</td>
<td>13.5</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6,725</td>
<td>5,224</td>
<td>28.7</td>
<td>18,318</td>
<td>12,959</td>
<td>38.3</td>
</tr>
<tr>
<td>EBITDA Margin (%)</td>
<td>19.0</td>
<td>16.6</td>
<td>14.4</td>
<td>28.3</td>
<td>26.3</td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td>1,089</td>
<td>993</td>
<td>9.7</td>
<td>1,140</td>
<td>1,074</td>
<td>6.7</td>
</tr>
<tr>
<td>Interest</td>
<td>10</td>
<td>10</td>
<td>4.9</td>
<td>25</td>
<td>25</td>
<td>4.9</td>
</tr>
<tr>
<td>PBT</td>
<td>7,027</td>
<td>5,042</td>
<td>39.4</td>
<td>17,816</td>
<td>13,985</td>
<td>27.8</td>
</tr>
<tr>
<td>Tax Expense</td>
<td>1,741</td>
<td>1,481</td>
<td>17.6</td>
<td>4,152</td>
<td>3,737</td>
<td>10.8</td>
</tr>
<tr>
<td>MI and Profit from assoc.</td>
<td>100</td>
<td>102</td>
<td>(2.0)</td>
<td>156</td>
<td>156</td>
<td>0.0</td>
</tr>
<tr>
<td>PAT</td>
<td>5,386</td>
<td>3,663</td>
<td>47.0</td>
<td>13,820</td>
<td>29,862</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Source: I-Sec research, Company data

Exhibit 3: Shareholding pattern

<table>
<thead>
<tr>
<th>%</th>
<th>Dec'22</th>
<th>Mar'23</th>
<th>Jun'23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoters</td>
<td>51.1</td>
<td>51.1</td>
<td>51.1</td>
</tr>
<tr>
<td>Institutional investors</td>
<td>42.5</td>
<td>42.0</td>
<td>42.2</td>
</tr>
<tr>
<td>MFs and others</td>
<td>20.6</td>
<td>20.1</td>
<td>19.3</td>
</tr>
<tr>
<td>FIs/Insurance</td>
<td>4.4</td>
<td>5.3</td>
<td>4.3</td>
</tr>
<tr>
<td>FLIs</td>
<td>17.5</td>
<td>16.6</td>
<td>18.6</td>
</tr>
<tr>
<td>Others</td>
<td>6.4</td>
<td>6.9</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: Bloomberg, I-Sec research

Exhibit 4: Price chart

Source: Bloomberg, I-Sec research
## Financial Summary

### Exhibit 5: Profit and loss

**FY22A** | **FY23A** | **FY24E** | **FY25E**
--- | --- | --- | ---
Net Sales | 1,53,682 | 1,77,344 | 2,07,365 | 2,42,406
Operating Expenses | 1,20,273 | 1,36,486 | 1,61,303 | 1,86,693
EBITDA | 33,409 | 40,859 | 46,062 | 55,712
EBITDA Margin (%) | 21.7 | 23.0 | 22.2 | 23.0
Depreciation & Amortization | 4,011 | 4,288 | 5,054 | 5,477
EBIT | 29,398 | 36,571 | 41,008 | 50,236
Interest expenditure | - | - | - | -
Other Non-operating Income | 2,315 | 2,808 | 3,856 | 4,049
Recurring PBT | 31,662 | 39,229 | 44,711 | 54,131
Profit / (Loss) from Associates | 458 | 459 | 263 | 264
Less: Taxes | 8,118 | 9,826 | 11,206 | 13,563
PAT | 23,545 | 29,404 | 33,505 | 40,586
Less: Minority Interest | - | 63 | 78 | 78
Extraordinary (Net) | - | - | - | -
Net Income (Reported) | 24,002 | 29,862 | 33,768 | 40,832
Net Income (Adjusted) | 24,002 | 29,862 | 33,705 | 40,755

Source Company data, I-Sec research

### Exhibit 6: Balance sheet

**FY22A** | **FY23A** | **FY24E** | **FY25E**
--- | --- | --- | ---
Total Current Assets | 2,33,495 | 3,00,477 | 3,17,976 | 3,37,525
of which cash & cash eqv. | 98,317 | 1,53,502 | 1,58,364 | 1,64,960
Total Current Liabilities & Provisions | 1,76,112 | 1,69,219 | 1,85,399 | 1,93,156
Net Current Assets | 57,384 | 1,31,259 | 1,32,578 | 1,44,369
Investments | 16,035 | 6,770 | 6,770 | 6,770
Net Fixed Assets | 26,753 | 29,629 | 29,970 | 29,493
ROU Assets | - | - | - | -
Capital Work-in-Progress | 10,060 | 8,549 | 10,910 | 11,001
Total Intangible Assets | - | - | - | -
Other assets | 7,112 | 4,449 | 4,449 | 4,449
Deferred Tax Assets | 6,209 | 5,037 | 5,037 | 5,037
Total Assets | 1,23,552 | 1,85,693 | 1,89,713 | 2,01,120
Liabilities
Borrowings | 515 | 46,871 | 46,562 | 46,562
Deferred Tax Liability | 15 | 29 | 29 | 29
provisions | - | - | - | -
other Liabilities | - | - | - | -
Equity Share Capital | 2,437 | 7,310 | 7,310 | 7,310
Reserves & Surplus | 1,20,423 | 1,31,307 | 1,35,572 | 1,46,901
Total Net Worth | 1,22,859 | 1,38,616 | 1,42,882 | 1,54,211
Minority Interest | 163 | 178 | 241 | 319
Total Liabilities | 1,23,552 | 1,85,693 | 1,89,713 | 2,01,120

Source Company data, I-Sec research

### Exhibit 7: Quarterly trend

**Sep-22** | **Dec-22** | **Mar-23** | **Jun-23**
--- | --- | --- | ---
Net Sales | 39,816 | 41,531 | 64,791 | 35,329
% growth (Y/OY) | 7.7 | 12.2 | 2.2 | 12.5
EBITDA | 8,683 | 8,634 | 18,318 | 6,725
Margin % | 21.9 | 20.8 | 28.3 | 19.0
Other Income | 738 | 586 | 662 | 1,402
Extraordinary | - | - | - | -
Adjusted Net Profit | 6,244 | 6,135 | 13,820 | 5,386

Source Company data, I-Sec research

## Exhibit 8: Cashflow statement

**FY22A** | **FY23A** | **FY24E** | **FY25E**
--- | --- | --- | ---
Operating Cashflow | 47,063 | 10,537 | 38,400 | 36,973
Working Capital Changes | 20,329 | (22,911) | 3,544 | (5,176)
Capital Commitments | (5,546) | (5905) | (7,756) | (5,091)
Free Cashflow | 41,517 | 4,632 | 30,644 | 31,881
Other investing cashflow | (43,171) | 32,813 | 3,919 | 4,127
Cashflow from Investing Activities | (48,717) | 26,908 | (3,836) | (964)
Issue of Share Capital | - | - | - | -
Interest Cost | (20) | (113) | (153) | (153)
Inc (Dec) in Borrowings | (18) | - | (309) | -
Dividend paid | - | - | - | -
Others | (10,233) | (12,428) | (29,701) | (29,393)
Cash flow from Financing Activities | (10,271) | (12,541) | (29,701) | (29,393)
Chg. in Cash & Bank balance | (11,925) | 24,905 | 4,862 | 6,616
Closing cash & balance | 18,504 | 37,913 | 44,319 | 50,935

Source Company data, I-Sec research

## Exhibit 9: Key ratios

**FY22A** | **FY23A** | **FY24E** | **FY25E**
--- | --- | --- | ---
Per Share Data (INR)
Reported EPS | 3.2 | 4.0 | 4.6 | 5.5
Adjusted EPS (Diluted) | 3.3 | 4.1 | 4.6 | 5.6
Cash EPS | 3.8 | 4.7 | 5.3 | 6.3
Dividend per share (DPS) | 1.3 | 4.0 | 4.0 | 4.0
Book Value per share (BV) | 16.8 | 19.0 | 19.5 | 21.1
Dividend Payout (%) | 41.4 | 99.4 | 87.3 | 72.1
Growth (%)
Net Sales | 8.9 | 15.4 | 16.9 | 16.9
EBITDA | 4.1 | 22.3 | 12.7 | 21.0
EPS (INR) | 13.8 | 24.9 | 13.9 | 21.1
Valuation Ratios (x)
P/E | 40.4 | 32.4 | 28.4 | 23.5
P/CEPS | 34.0 | 27.9 | 24.5 | 20.6
P/BV | 7.7 | 6.9 | 6.7 | 6.2
EV / EBITDA | 25.1 | 20.5 | 18.1 | 14.8
Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0
Operating Ratios
Gross Profit Margins (%) | 42.3 | 44.6 | 42.4 | 41.8
EBITDA Margins (%) | 21.7 | 23.0 | 22.2 | 23.0
Effective Tax Rate (%) | 25.6 | 25.0 | 25.1 | 25.1
Net Profit Margins (%) | 15.3 | 16.6 | 16.2 | 16.7
Net Debt / Equity (x) | (0.9) | (0.8) | (0.8) | (0.8)
Net Debt / EBITDA (x) | (3.4) | (2.8) | (2.6) | (2.2)
Fixed Asset Turnover (x) | 3.4 | 3.6 | 3.8 | 4.0
Inventory Turnover Days | 144 | 150 | 157 | 157
Receivables Days | - | 0 | 0 | 0
Payables Days | - | - | - | -
Profitability Ratios
RoCE (%) | 19.5 | 19.6 | 18.5 | 19.6
RoE (%) | 21.5 | 24.0 | 25.0 | 28.0
RoIC (%) | 43.6 | 88.6 | 155.9 | 142.5

Source Company data, I-Sec research

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India | Equity Research
ANALYST CERTIFICATION

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