

Execution in line; higher costs impact margins...

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

Q3FY23 Results: Revenue came in line with estimates; higher than expected raw material costs impacted margins.

- Revenue increased 11.8% YoY (up 4.7% QoQ) to ₹ 4131.0 crore; largely in line with estimates. The growth was primarily driven by better execution
- EBITDA margin contracted 160 bps YoY (-103 bps QoQ) to 20.7%; lower than our estimate of 22.2%. This was primarily on account of higher than expected raw material cost
- PAT increased 2.6% YoY to ₹ 598.8 crore against our estimate of ₹ 653.1 crore; primarily due to lower-than-expected OPM
- Order backlog was at ₹ 50116 crore as of December 2022 end (2.9x TTM revenues). Implied order inflows were at ₹ 1452 crore during Q3FY23 and ₹ 3736 during 9MFY23

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 ₹ 130 i.e. 28x 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 ₹ 2355



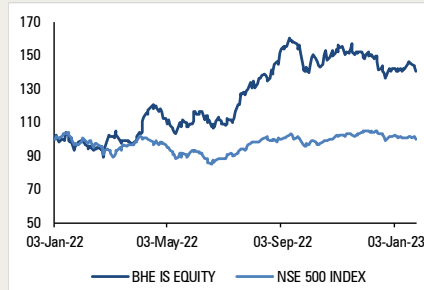
Particulars

Particular	Amount
Market Capitalization	₹ 68712 Crore
Total Debt (FY22)	₹ 0 Crore
Cash and Inv (FY22)	₹ 7564.2 crore
EV (FY22)	₹ 62522 Crore
52 week H/L (₹) (BSE)	115 / 62
Equity capital	₹ 731 Crore
Face value	₹ 1

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	51.1	51.1	51.1	51.1
FII	16.8	16.0	17.4	17.3
DII	26.7	27.8	25.6	25.1
Others	5.4	5.1	5.9	6.5

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)	35.7	38.3	33.3	29.3		25.0	21.0	
EV/EBITDA (x)	24.1	24.7	20.5	19.6		16.2	13.3	
RoCE (%)	33.0	27.4	35.5	43.2		43.4	43.1	
RoE (%)	23.5	19.9	24.9	32.1		32.3	32.1	

Key takeaways of recent quarter

Q3FY23 Results:

- Revenue from operations for the quarter increased by 11.8% YoY to ₹ 4131.0 crore; largely in line with our estimate of ₹ 4081.0 crore. Sequentially, revenue grew 4.7%. The YoY growth was primarily driven by better execution. The 9MFY23 revenue growth was at 24.5% YoY as revenues grew significantly by 33.3% YoY in H1FY23 on a lower base (as H1FY22 revenues were impacted by supply chain issues)
- Gross margin was at 41.5% during the quarter; improved 109 bps YoY but lower than our estimate of 43.3%. Total raw material cost has increased 9.8% YoY
- EBITDA margin contracted by 160 bps YoY to 21.7%; lower than our estimate of 22.2%. This was primarily on account of lower-than-expected gross margin. Employee cost and others costs increased 12.6% and 75.8% YoY, respectively and came in-line with our estimates. Sequentially also, the EBITDA margin contracted by 103 bps
- EBITDA increased by 3.8% YoY basis at ₹ 853.5 crore (vs. I-direct estimate of ₹ 908.0 crore) as the revenue growth of 11.8% has been negated by contraction in margins. Sequentially, EBITDA remained largely flattish. The 9MFY23 EBITDA was up 27.6% YoY as the revenue growth & margins during H1FY23 were better on a YoY basis (9MFY23 EBITDA margin was at 19.9%, up marginally by 49 bps YoY
- PAT increased 2.6% YoY (-2.1% QoQ) to ₹ 598.8 crore against our estimate of ₹ 653.1 crore on account of a muted operational performance on both YoY & QoQ basis. Other income was at ₹ 57.5 crore (-3.1% YoY). Sequentially, PAT declined 2.0%. The 9MFY23 PAT was up 36% YoY
- The order book position of the company was at ₹ 50116 crore as of December 2022 end (~2.9x TTM revenues). Implied order inflows were at ₹ 1452 crore during Q2FY23 and ₹ 3736 during 9MFY23

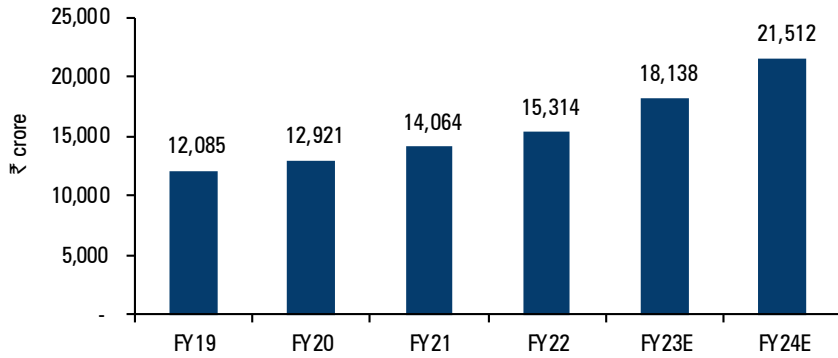
Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Operating Income	4,131.0	4,081.0	3,693.7	11.8	3,946	4.7	Revenue came in-line with estimates
Other income	57.5	75.0	59.3	-3.1	75	-23.4	
Total Revenue	4,188.5	4,156.0	3,753.0	11.6	4,020.8	4.2	
Raw materials costs	2,415.7	2,314.9	2,200.2	9.8	2,238	7.9	
Employees Expenses	567.4	558.8	503.9	12.6	596	-4.7	
Other Expenses	294.4	299.3	167.5	75.8	256	14.9	
Total Expenditure	3,277.5	3,173.0	2,871.6	14.1	3,090	6.1	
EBITDA	853.5	908.0	822.1	3.8	855.8	-0.3	
EBITDA margins (%)	20.7	22.2	22.3	-160 bps	21.7	-103 bps	Higher costs impacted margins
Interest	9.7	1.3	0.2		1.7		
Depreciation	100.8	105.0	92.9	8.5	104.2	-3.3	
Tax	201.7	223.6	205.0	-1.6	213.8	-5.7	
PAT	598.8	653.1	583.4	2.6	611.1	-2.0	

Source: Company, ICICI Direct Research

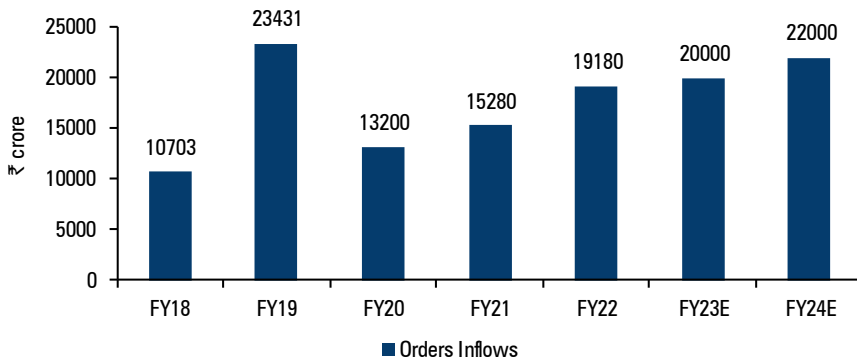
Financial story in charts

Exhibit 2: Revenue trend



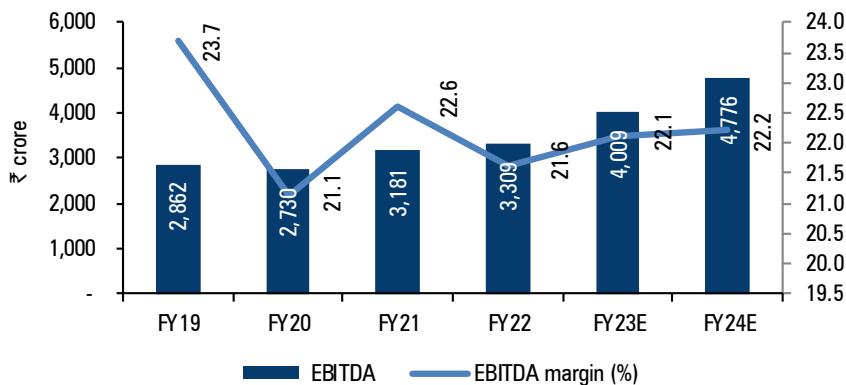
Source: Company, ICICI Direct Research

Exhibit 3: Order inflow trend



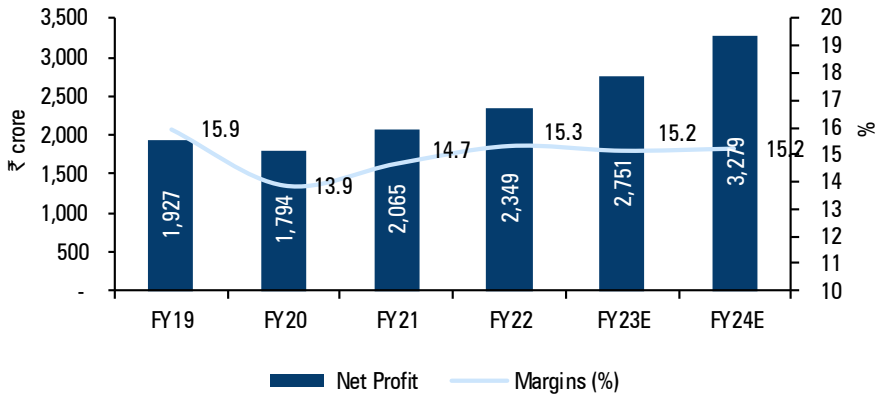
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



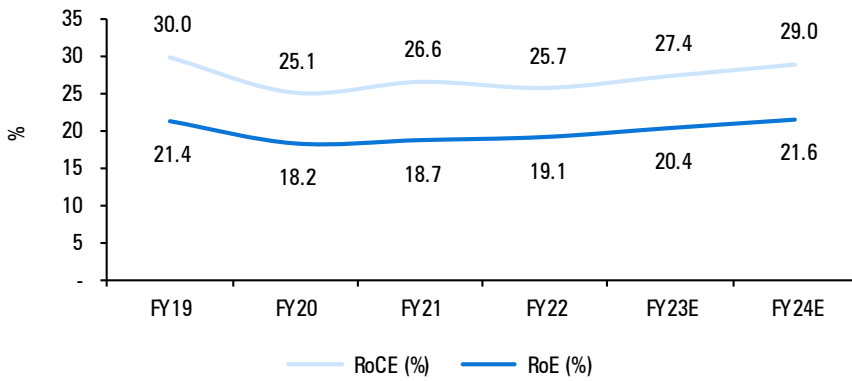
Source: Company, ICICI Direct Research

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

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	243.7	243.7	731.0	731.0
Reserve and Surplus	10,816	12,042	12,758	14,458
Total Shareholders funds	11,060	12,286	13,489	15,189
Other Non Current Liabilities	8.2	72.1	72.1	72.1
Total Debt	-	-	-	-
Total Liabilities	12,660	14,330	15,533	17,233
Gross Block	3,764	4,309	5,302	5,979
Acc: Depreciation	1,634	2,014	2,504	3,063
Net Block	2,675	2,742	2,798	2,915
Capital WIP	397	446	600	500
Total Fixed Assets	3,725	3,914	4,124	4,141
Non Current Assets	936	1,364	1,364	1,364
Inventory	4,968	5,592	6,708	7,662
Debtors	6,562	6,108	9,193	10,903
Loans and Advances	2	1	1	1
Other Current Assets	6,914	7,781	8,162	9,680
Cash	5,074	7,564	7,346	7,775
Total Current Assets	23,714	27,294	31,659	36,268
Current Liabilities	3,299	3,369	4,721	5,599
Provisions	1,412	1,805	1,805	1,805
Total Current Liabilities	16,830	19,581	22,953	27,040
Net Current Assets	6,884	7,713	8,706	9,228
Total Assets	12,660	14,330	15,533	17,233

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	2,065	2,349	2,751	3,279
Depreciation	366	380	490	559
Interest	6	5	5	5
Cash Flow before WC changes	2,438	2,734	3,245	3,843
Changes in inventory	(1,005)	(624)	(1,117)	(953)
Changes in debtors	171	454	(3,085)	(1,710)
Changes in loans & Advances	1,408	0	-	-
Changes in other current assets	(2,238)	(867)	(381)	(1,518)
Net Increase in Current Assets	(1,550)	(1,090)	(4,582)	(4,181)
Changes in creditors	732	70	1,351	878
Changes in provisions	(1,126)	74	143	105
Net Inc in Current Liabilities	2,891	2,751	3,372	4,087
Net CF from Operating activities	3,779	4,395	2,035	3,749
Changes in deferred tax assets	34	(157)	-	-
(Purchase)/Sale of Fixed Assets	(1,372)	(570)	(700)	(500)
Net CF from Investing activities	170	(778)	(700)	(1,661)
Dividend and Dividend Tax	(975)	(1,096)	(1,316)	(1,572)
Net CF from Financing Activities	(914)	(1,127)	(1,553)	(1,660)
Net Cash flow	3,034	2,490	(218)	428
Opening Cash/Cash Equivalent	2,040	5,074	7,564	7,346
Closing Cash/ Cash Equivalent	5,074	7,564	7,346	7,775

*calculated, Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	2.8	3.2	3.8	4.5
Cash per Share	4.7	5.4	5.1	7.3
BV	11.3	10.0	11.7	14.0
Dividend per share	1.3	1.5	1.8	2.2
Dividend payout ratio	47%	47%	48%	48%
EBITDA Margin	22.6	21.6	22.1	22.2
PAT Margin	14.9	15.6	15.4	15.5
RoE	24.9	32.1	32.3	32.1
RoCE	35.5	43.2	43.4	43.1
RoIC	47.0	62.0	57.3	56.9
EV / EBITDA	20.5	19.6	16.2	13.3
P/E	33.3	29.3	25.0	21.0
EV / Net Sales	4.6	4.2	3.6	2.9
Sales / Equity	1.7	2.1	2.1	2.1
Market Cap / Sales	4.9	4.5	3.8	3.2
Price to Book Value	8.3	9.4	8.1	6.7
Asset turnover	1.7	2.1	2.1	2.1
Debtors Turnover Ratio	2.1	2.4	2.4	2.1
Creditors Turnover Ratio	4.8	4.6	4.5	4.2
Debt / Equity	-	-	-	-
Current Ratio	4.0	4.1	3.8	3.9
Quick Ratio	2.9	2.9	2.8	2.8

Source: Company, ICICI Direct Research

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Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

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