

## Order inflows to remain key growth driver...

**About the stock:** Bharat Electronics (BEL) is a leading aerospace and defence electronics company. It primarily manufactures advanced 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

**Q4FY23 Results:** Revenues came in line with estimates; lower-than-expected raw material costs improved margins.

- Revenue increased 2.1% YoY (up 56.3% QoQ) to ₹ 6456.6 crore; largely in-line with estimates
- EBITDA margin improved 347 bps YoY (up 760 bps QoQ) to 28.3%; better than our estimate of 24.5%. This was primarily on account of lower-than-expected raw material cost
- PAT increased 19.6% YoY (up 128% QoQ) to ₹ 1365.4 crore against our estimate of ₹ 1137.7 crore; primarily due to better-than-expected margins
- The order backlog was at ₹ 60690 crore as of March 2023 end (3.4x FY23 revenues). Implied order inflows were at ₹ 20600 crore during FY23

**What should investors do?** Overall, expected double digit revenue, order inflow growth, sustained margins and strong order book to ensure a better performance.

- We remain long term positive and retain our **BUY** rating on the stock

**Target Price and Valuation:** We value BEL at ₹ 135 i.e. 25x P/E on FY25E 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 over the next three to five years
- We expect revenue, EBITDA to grow at a CAGR of 17.7%, 15.5%, respectively, in FY22-24E aided by sustained margins at ~22%
- Strong balance sheet, double digit returns ratios

**Alternate Stock Idea:** We also like Hindustan Aeronautics (HAL) in our coverage.

- Strong order backlog of ~ ₹ 82000 crore and healthy order pipeline give strong revenue visibility
- Continuous flow of maintenance & repair contracts provides cushion to margins & profitability
- BUY with a target price of ₹ 3610



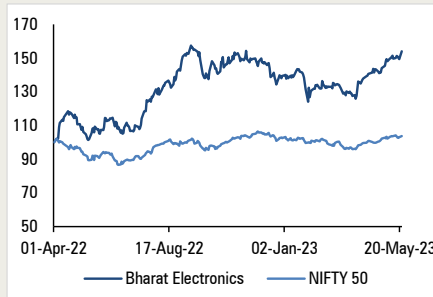
### Particulars

Particular	Amount
Market Capitalization	₹ 79677 Crore
Total Debt (FY23)	₹ 0 Crore
Cash and Inv (FY23)	₹ 7925.9 crore
EV (FY23)	₹ 71751 Crore
52 week H/L (₹) (BSE)	115 / 73
Equity capital	₹ 731 Crore
Face value	₹ 1

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	51.1	51.1	51.1	51.1
FII	16.0	17.4	17.3	16.4
DII	27.8	25.6	25.1	25.5
Others	5.1	5.9	6.5	6.9

### Price Performance



### Recent Events & Key Risks

**Key Risks :** (i) Delays in contracts from government (ii) Execution to be impacted if there is a delay in advances from customers

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### Key Financial Summary

(₹ crore)	FY20	FY21	FY22	FY23	3 Year CAGR (FY17-22E)	FY24E	FY25E	2 Year CAGR (FY22-24E)
Revenues	12,921	14,064	15,368	17,734	11.1	20,980	24,573	17.7
EBITDA	2,730	3,181	3,341	4,086	14.4	4,653	5,450	15.5
EBITDA margin (%)	21.1	22.6	21.7	23.0		22.2	22.2	
Net Profit	1,794	2,065	2,400	2,986	18.5	3,325	3,880	14.0
EPS (₹)	2.5	2.8	3.3	4.1		4.5	5.3	
P/E (x)	44.4	38.6	33.2	26.7		24.0	20.5	
EV/EBITDA (x)	28.6	23.5	21.6	17.6		15.2	12.7	
RoCE (%)	24.6	26.6	25.8	28.4		28.0	28.8	
RoE (%)	17.8	18.7	19.5	21.5		21.1	21.7	

## Key takeaways of recent quarter

### Q4FY23 Results: Revenue growth in line; margins better than expectations

- Revenue from operations for the quarter increased 2.1% YoY to ₹ 6456.6 crore; in line with expectations. Sequentially, revenue grew 56.3% as Q4 remains better on a QoQ basis in terms of execution. The muted YoY growth for the quarter was mainly due to higher base (as Q4FY22 witnessed revenue spillover from previous quarters that were impacted on account of supply chain issues). For FY23, revenue growth remained strong at 15.2% YoY to ₹ 17646.2 crore
- Gross margin was at 48.2% during the quarter (improved sharply by 637 bps YoY), led by lower raw material cost. We had estimated gross margin of 41.6%
- The EBITDA margin also improved by 347 bps YoY to 28.3%; better than our estimate of 24.5%. This was despite higher-than-expected other cost (which increased sharply by 45.9% YoY). The margin improved sequentially also led by positive operating leverage. Subsequently, absolute EBITDA was up 16.4% YoY (up 113.8% QoQ) to ₹ 1824.8 crore. For FY23, EBITDA growth was at 22.3% to ₹ 4047.5 crore with margin at 22.9% vs. 21.6% in FY22
- PAT increased 19.6% YoY (up 128% QoQ) to ₹ 1365.4 crore against our estimate of ₹ 1137.7 crore. FY23 PAT was up 28% YoY to ₹ 3006.7 crore

### Earnings Call Highlights

- The order book position of BEL was at ₹ 60690 crore as of March 2023 end (3.4x FY23 revenues). Order inflows were at ₹ 20600 crore during FY23
- Defence and non-defence revenue mix was at 87% and 10.6%, respectively, during FY23. Exports revenue was at \$48 mn (~₹ 390 crore) during the year, which implies 2.4% of sales
- Revenue growth guidance for FY24E was 17% while EBITDA margin guidance was 21-23% for the year
- Exports revenue is expected at \$90-100 million in FY24
- Orders inflow during FY24 are expected at ~₹ 20,000 crore. Major orders in pipeline are: Akash Prime (~₹ 4,400 crore), fuses (~₹ 4500 crore), shipbuilding electronics systems for various warships (₹ 5000-6000 crore), Shakti electronic warfare (~₹ 1000 crore), etc
- As per the management, the order inflow guidance is based on the orders, which are in the pipeline and expected to come in FY24 with high possibilities. This does not include large scale projects like Quick reaction surface to air missile (QRSAM) and Medium Range surface to air missile (MRSAM), which can come in FY24 or FY25. There is also a possibility of upward revision in order inflows guidance if any unexpected orders come during the year
- Others cost increased during Q4FY24 due to higher provisions on account of liquidated damages and delays in supplies
- QRSAM trials are complete and final evaluations are pending, which are expected next month. Post this, RFP will be floated and price negotiations process will start with the customer
- Non-defence revenue will be mainly driven by electronic voting machines (EVM) and voter verifiable paper audit trail (VVPAT). The company has developed products for Railways, metros and airports and expects orders from these segments in future. However, these orders may take some time to get reflected in numbers

- Capex for FY24 is expected at ₹ 700-800 crore, Going forward, annual capex is expected at ~₹ 500 crore
- Going forward, defence and non-defence revenue mix is expected at 85% and 15%, respectively
- Regarding the letter of intent (Lol) of ₹ 8060 crore from Triton Electric Vehicle India (TEV India) for supply of 300 KW Li-Ion battery packs for their semi-truck project in India, the company has supplied battery samples to TEV and they are in the process of evaluation
- R&D expenditure for FY23 was at ₹ 1088 crore (6.2% of sales). The company is targeting R&D spend at ~7% of sales for FY24

**Exhibit 1: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Operating Income	6,456.6	6,422.2	6,324.9	2.1	4,131	56.3	Revenue came in-line with estimates
Other income	67.8	67.8	63.8	6.3	57	18.0	
Total Revenue	6,524.4	6,489.9	6,388.7	2.1	4,188.5	55.8	
Raw materials costs	3,346.4	3,753.5	3,681.1	-9.1	2,416	38.5	
Employees Expenses	558.4	596.2	577.8	-3.3	567	-1.6	
Other Expenses	727.0	497.8	498.3	45.9	294	146.9	
Total Expenditure	4,631.8	4,847.5	4,757.1	-2.6	3,278	41.3	
EBITDA	1,824.8	1,574.7	1,567.8	16.4	853.5	113.8	
EBITDA margins (%)	28.3	24.5	24.8	347 bps	20.7	760 bps	Margins expanded on better cost control
Interest	2.3	9.7	4.1		9.7		
Depreciation	108.8	106.0	101.0	7.7	100.8	7.9	
Tax	416.1	389.1	384.8	8.2	201.7	106.4	
PAT	1365.4	1137.7	1141.8	19.6	598.8	128.0	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

	FY23		FY24E		FY25E		
(₹ Crore)	Actual	Old	New	% Change	Old	New	% Change
Revenue	17,734	21,500	20,980	-2.4	25,076	24,573	-2.0
EBITDA	4,086	4,773	4,653	-2.5	5,567	5,450	-2.1
EBITDA Margin (%)	23.0	22.2	22.2		22.2	22.2	
PAT	2,986	3,277	3,325	1.5	3,807	3,880	1.9
EPS (₹)	4.1	4.5	4.5	1.5	5.2	5.3	1.9

Source: ICICI Direct Research, Company

## Financial summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	15,085	17,404	20,590	24,116
Other operating income	283	330	391	458
Revenue	15,368	17,734	20,980	24,573
% Growth	9.3	15.4	18.3	17.1
Other income	231.5	280.8	310.0	340.0
Total Revenue	15,368	17,734	20,980	24,573
% Growth	8.2	15.4	18.3	17.1
Total Raw Material Costs	8,897	9,828	11,736	13,746
Employee Expenses	2,128	2,317	2,615	3,063
other expenses	1,002	1,504	1,977	2,315
Total Operating Expenditure	12,027	13,649	16,328	19,124
Operating Profit (EBITDA)	3,341	4,086	4,653	5,450
% Growth	5.0	22.3	13.9	17.1
Interest	5	15	5	5
PBDT	3,567	4,352	4,958	5,785
Depreciation	401	429	556	639
PBT before Exceptional Item	3,166	3,923	4,402	5,146
Total Tax	812	983	1,122	1,312
PAT before MI	2,354	2,940	3,279	3,834
Minority Interest	-	-	-	-
PAT	2,400	2,986	3,325	3,880
% Growth	16.2	24.4	11.4	16.7
EPS	3.3	4.1	4.5	5.3

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	2,400	2,986	3,325	3,880
Depreciation	401	429	556	639
Interest	5	15	5	5
Cash Flow before WC changes	2,806	3,430	3,886	4,523
Changes in inventory	(624)	(856)	(1,226)	(1,314)
Changes in debtors	454	(1,192)	(1,609)	(1,526)
Changes in loans & Advances	0	-	(0)	(0)
Changes in other current assets	(867)	(65)	(1,385)	(1,581)
Net Increase in Current Assets	(1,090)	(2,372)	(4,220)	(4,421)
Changes in creditors	70	291	938	787
Changes in provisions	74	204	62	118
Net Inc in Current Liabilities	2,751	984	3,954	4,031
Net CF from Operating activities	4,467	2,043	3,620	4,134
Changes in deferred tax assets	(157)	117	-	-
(Purchase)/Sale of Fixed Assets	(473)	(529)	(750)	(500)
Net CF from Investing activities	(726)	(200)	(1,194)	(734)
Dividend and Dividend Tax	(1,023)	(1,316)	(1,462)	(1,718)
Net CF from Financing Activities	(1,252)	(1,480)	(1,534)	(1,730)
Net Cash flow	2,490	362	892	1,670
Opening Cash/Cash Equivalent	5,074	7,564	7,926	8,818
Closing Cash/ Cash Equivalent	7,564	7,926	8,818	10,487

\*calculated, Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Equity Capital	243.7	731.0	731.0	731.0
Reserve and Surplus	12,059	13,128	15,001	17,155
Total Shareholders funds	12,302	13,859	15,732	17,886
Other Non Current Liabilities	72.1	64.5	64.5	64.5
Total Debt	-	-	-	-
Total Liabilities	14,330	14,905	16,778	18,932
Gross Block	4,549	5,163	5,851	6,351
Acc: Depreciation	2,040	2,469	3,025	3,664
Net Block	2,509	2,694	2,826	2,687
Capital WIP	446	361	500	500
Total Fixed Assets	3,681	3,818	4,088	3,949
Non Current Assets	2,703	1,425	1,869	2,103
Inventory	5,592	6,448	7,674	8,988
Debtors	6,108	7,300	8,909	10,435
Loans and Advances	1	1	2	2
Other Current Assets	7,781	7,846	9,231	10,812
Cash	7,564	7,926	8,818	10,487
Total Current Assets	27,294	30,027	35,140	41,230
Current Liabilities	3,369	3,660	4,598	5,386
Provisions	1,805	845	845	845
Total Current Liabilities	19,581	20,565	24,520	28,551
Net Current Assets	7,713	9,462	10,620	12,679
Total Assets	14,330	14,905	16,778	18,932

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
EPS	3.3	4.1	4.5	5.3
Cash per Share	10.3	10.8	12.1	14.3
BV	16.8	19.0	21.5	24.5
Dividend per share	1.4	1.8	2.0	2.4
Dividend payout ratio	43%	44%	44%	44%
EBITDA Margin	21.7	23.0	22.2	22.2
PAT Margin	15.9	17.2	16.2	16.1
RoE	19.5	21.5	21.1	21.7
RoCE	25.8	28.4	28.0	28.8
RoIC	62.0	61.6	59.3	65.0
EV / EBITDA	21.6	17.6	15.2	12.7
P/E	33.2	26.7	24.0	20.5
EV / Net Sales	4.7	4.0	3.4	2.8
Sales / Equity	1.2	1.3	1.3	1.4
Market Cap / Sales	5.2	4.5	3.8	3.2
Price to Book Value	6.5	5.7	5.1	4.5
Asset turnover	1.2	1.3	1.3	1.4
Debtors Turnover Ratio	2.4	2.6	2.6	2.5
Creditors Turnover Ratio	4.6	5.0	5.1	4.9
Debt / Equity	-	-	-	-
Current Ratio	4.1	4.1	4.1	4.2
Quick Ratio	2.9	2.9	2.9	3.0

Source: Company, ICICI Direct Research

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