

India

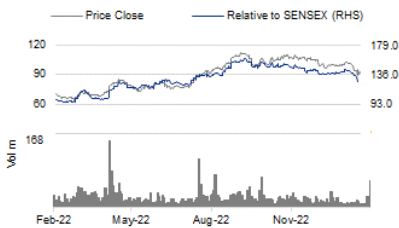
February 03, 2023 - 10:25 AM

ADD (no change)

Consensus ratings*: Buy 27 Hold 2 Sell 2	
Current price:	Rs93
Target price: ▶	Rs100
Previous target:	Rs100
Up/downside:	7.5%
InCred Research / Consensus:	-18.6%
Reuters:	
Bloomberg:	BHE IN
Market cap:	US\$9,372m
	Rs680,540m
Average daily turnover:	US\$29.4m
	Rs2137.1m
Current shares o/s:	7,309.8m
Free float:	48.9%
*Source: Bloomberg	

Key financial forecast

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	29,904	32,406	37,931
Core EPS (Rs)	4.09	4.43	5.19
Core EPS Growth	27.3%	8.4%	17.0%
FD Core P/E	22.76	21.00	17.94
Recurring ROE	23.3%	22.2%	22.9%
P/BV (x)	4.98	4.39	3.86
DPS (Rs)	1.78	1.93	2.26
Dividend Yield	1.91%	2.07%	2.43%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(7.1)	(13.1)	32.5
Relative (%)	(5.2)	(11.7)	31.7

Major shareholders	% held
Promoter	51.1
HDFC Mutual Fund	5.1
CPSE ETF	4.8

Analyst(s)

Dipen VAKIL
 T (91) 22 4161 1551
 E dipen.vakil@incredcapital.com

Bharat Electronics Ltd

Strong order wins likely in 4QFY23F

- 3Q sales (Rs41.3bn) and EBITDA (Rs8.5bn) increased by 12% yoy and 4% yoy. Management maintained its guidance of around 15% growth in FY23F.
- Order book in 3QFY23 was at Rs501b, which led to an order inflow of Rs36bn in 9MFY23. BEL sees a strong FY23F order book of ~Rs200bn.
- Maintain ADD rating on BEL with an unchanged target price of Rs100.

3QFY23 results highlights

- Bharat Electronics (BEL) reported strong sales at Rs41.3bn (up 12% yoy), 5% above Bloomberg consensus estimate of Rs39.3bn.
- EBITDA was at Rs8.5bn (up 4% yoy and flat qoq), 1.2% below Bloomberg estimate of Rs8.6bn, due to higher-than-expected other expenses. EBITDA margin at 20.7% (down 160bp yoy) was below Bloomberg estimate of 21.9%.
- PBT was at Rs8bn (flat yoy). Core net profit at Rs6bn (up 2.6% yoy) was 6.3% below Bloomberg consensus estimate.

Order inflow and backlog

- BEL's order backlog as at end-3QFY23 stood at Rs501bn (down 11.4% yoy; 3.3x FY22 sales), which led to a derived order inflow of Rs13.7bn (down 76% yoy). However, the order pipeline remains strong, and the quarterly order inflow is likely to be lumpy.
- Around 80% of the orders are from the defence segment and the remaining 20% are from the civilian segment.

Conference-call highlights

- **Guidance:** Revenue growth of ~15% and order book of ~Rs200bn in FY23F. BEL is expecting a higher double-digit revenue growth (~20%) from FY24F. It will be driven by growth in the defence market and from diversification into the civilian market as well as export opportunities.
- **Order inflow:** Normally, in the defence sector, major order bookings happen in 4Q after a lengthy process. Hence, even after tepid order wins of just Rs36bn in 9MFY23, BEL is confident of an order inflow of close to Rs200bn in FY23F. Trials for the QRSAM missile have been completed, and BEL expects the first package of QRSAM (Rs120bn) to fructify in FY24F and another one in FY25F.
- **Key areas for likely new orders:** BEL expects orders worth over Rs150bn in 4QFY23F.
 - Defence segment** – The order finalization process for electronics equipment is in an advanced stage for various programmes such as Himshakti (Rs32bn), Arudhra radar system (Rs30bn), Akash Prime missile (Rs40bn), EWS upgrade suite for MiG-17 (Rs15bn), & electronic systems relating to ships and submarines (~Rs25bn each).
 - Civilian segment** – (1) Signed a Memorandum of Understanding or MoU with the Airports Authority of India to develop air traffic management system and airport surveillance radars and other equipment. (2) Signed a MoU with Delhi Metro to indigenously develop the imported components used in its metro rail system. (3) BEL is also exploring business opportunities in cyber security in the civilian segment.
- **Capital expenditure:** BEL incurred a capex of ~Rs5-6bn in FY22 for expanding LRSAM and Akash missile facilities. It has plans to incur a similar capex of Rs6bn for the next two-to-three years.
- **Working capital:** Receivables - Rs75bn, inventory - Rs65bn and cash balance - Rs30bn. BEL expects most of the receivables to be converted to cash by 4QFY23F.

Maintain ADD rating with an unchanged target price of Rs100

- We believe the strong order backlog and the traction in exports and the non-defence portfolio will drive near-term sales, and large orders in the pipeline to aid medium-term growth while operating leverage will support margins.

We maintain our estimates and retain ADD rating on BEL with an unchanged target price of Rs100. Lower-than-estimated order wins and margins are key downside risks.

Figure 1: Standalone quarterly analysis

YE March (Rs m)	3QFY23	3QFY22	yoy % chg	1QFY23	qoq % chg	9MFY23	9MFY22	yoy % chg
Total Revenue	41,310	36,937	11.8%	39,458	4.7%	1,11,896	89,889	24.5%
Less:								
Net Raw Material consumed	24,157	22,002	9.8%	22,383	7.9%	64,624	52,215	23.8%
Other Expenses	2,944	1,675	75.8%	2,563	14.9%	7,652	4,943	54.8%
Personnel	5,674	5,039	12.6%	5,955	(4.7%)	17,393	15,316	13.6%
Total Expenditure	32,775	28,716	14.1%	30,901	6.1%	89,669	72,474	23.7%
EBIDTA	8,535	8,221	3.8%	8,558	(0.3%)	22,227	17,414	27.6%
Less: Depreciation	1,008	929	8.5%	1,042	(3.3%)	2,991	2,792	7.1%
EBIT	7,527	7,292	3.2%	7,516	0.1%	19,237	14,622	31.6%
Less: Interest paid	97	2	5305.6%	17	204.9%	125	8	1461.3%
Non-operating Income	575	593	(3.1%)	750	(23.4%)	2,922	1,698	72.1%
Extraordinary Income								
Extraordinary Expense								
Profit Before Tax	8,004	7,883	1.5%	8,249	(3.0%)	22,034	16,312	35.1%
Profit Before Tax Excl. extraordinary items	8,004	7,883	1.5%	8,249	(3.0%)	22,034	16,312	35.1%
Less: Total Tax	2,017	2,050	(1.6%)	2,138	(5.7%)	5,621	4,241	32.5%
Profit After Tax	5,988	5,834	2.6%	6,111	(2.0%)	16,413	12,071	36.0%
Minority Interest								
Associates' share								
Reported PAT	5,988	5,834	2.6%	6,111	(2.0%)	16,413	12,071	36.0%
Profit After Tax Excl. extraordinary item:	5,988	5,834	2.6%	6,111	(2.0%)	16,413	12,071	36.0%
Diluted Shares Outstanding (mn)	7,310	7,310		7,310		7,310	7,310	
Reported EPS-Diluted (Rs.)	0.82	0.80	2.6%	0.84	(2.0%)	2.2	1.7	36.0%

Margin Analysis			yoy bps chg		qoq bps chg			yoy bps chg
Raw Material % of Total Revenue	58.5%	59.6%	-109	56.7%	175	57.8%	58.1%	-33
Other Expenses % of Total Revenue	7.1%	4.5%	259	6.5%	63	6.8%	5.5%	134
Personnel % of Total Revenue	13.7%	13.6%	9	15.1%	-136	15.5%	17.0%	-150
EBIDTA Margin	20.7%	22.3%	-160	21.7%	-103	19.9%	19.4%	49
EBIT Margin	18.2%	19.7%	-152	19.0%	-83	17.2%	16.3%	92
PBT Margin (%)	19.4%	21.3%	-197	20.9%	-153	19.7%	18.1%	154
Proforma NPM	14.5%	15.8%	-130	15.5%	-99	14.7%	13.4%	124
Effective Tax Rate (%)	25.2%	26.0%	-81	25.9%	-73	25.5%	26.0%	-49

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	153,138	177,631	194,531	220,028
Gross Profit	64,113	75,493	82,676	93,512
Operating EBITDA	33,091	40,389	44,583	51,706
Depreciation And Amortisation	(3,802)	(3,663)	(3,853)	(4,336)
Operating EBIT	29,289	36,726	40,730	47,370
Financial Income/(Expense)	(49)			
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	2,336	3,477	2,837	3,624
Profit Before Tax (pre-EI)	31,576	40,203	43,567	50,993
Exceptional Items				
Pre-tax Profit	31,576	40,203	43,567	50,993
Taxation	(8,089)	(10,299)	(11,160)	(13,063)
Exceptional Income - post-tax				
Profit After Tax	23,487	29,904	32,406	37,931
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	23,487	29,904	32,406	37,931
Recurring Net Profit	23,487	29,904	32,406	37,931
Fully Diluted Recurring Net Profit	23,487	29,904	32,406	37,931

Balance Sheet

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	74,991	38,888	59,264	70,713
Total Debtors	61,034	82,732	90,603	102,479
Inventories	55,669	60,833	66,620	75,352
Total Other Current Assets	87,229	90,134	96,044	108,633
Total Current Assets	278,924	272,587	312,532	357,176
Fixed Assets	33,826	37,163	40,310	42,975
Total Investments	15,542	15,542	15,542	15,542
Intangible Assets				
Total Other Non-Current Assets	6,207	6,207	6,207	6,207
Total Non-current Assets	55,576	58,913	62,060	64,724
Total Liabilities	214,657	194,782	219,588	245,492
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	178,541	152,890	173,710	193,601
Other Current Liabilities	36,116	41,892	45,878	51,891
Total Current Liabilities	214,657	194,782	219,588	245,492
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities	0	0	0	0
Total Provisions				
Total Liabilities	214,657	194,782	219,588	245,492
Shareholders Equity	119,843	136,718	155,004	176,409
Minority Interests				
Total Equity	119,843	136,718	155,004	176,409

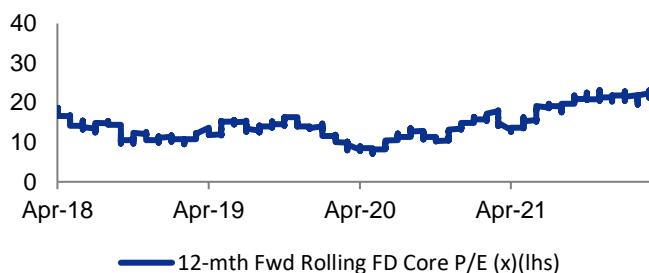
Cash Flow

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	33,091	40,389	44,583	51,706
Cash Flow from Invt. & Assoc.	(1,513)	(186)	(1,016)	(712)
Change In Working Capital	15,498	(49,641)	5,236	(7,291)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	3,802	3,663	3,853	4,336
Other Operating Cashflow	(1,254)	(3,477)	(2,837)	(3,624)
Net Interest (Paid)/Received	(49)			
Tax Paid	(8,024)	(10,299)	(11,160)	(13,063)
Cashflow From Operations	41,550	(19,551)	38,659	31,352
Capex				
Disposals Of FAs/subsidiaries	74			
Acq. Of Subsidiaries/Investments	(7,765)	(7,000)	(7,000)	(7,000)
Other Investing Cashflow	(40,914)	3,477	2,837	3,624
Cash Flow From Investing	(48,606)	(3,523)	(4,163)	(3,376)
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(10,233)	(13,029)	(14,119)	(16,526)
Preferred Dividends				
Other Financing Cashflow	(492)			
Cash Flow From Financing	(10,725)	(13,029)	(14,119)	(16,526)
Total Cash Generated	(17,780)	(36,104)	20,376	11,449
Free Cashflow To Equity	(7,055)	(23,074)	34,496	27,975
Free Cashflow To Firm	(7,007)	(23,074)	34,496	27,975

Key Ratios

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	8.9%	16.0%	9.5%	15.1%
Operating EBITDA Growth	4.0%	22.1%	10.4%	16.0%
Operating EBITDA Margin	22.0%	23.1%	23.3%	23.5%
Net Cash Per Share (Rs)	10.26	5.32	8.11	9.67
BVPS (Rs)	16.39	18.70	21.21	24.13
Gross Interest Cover	603.89			
Effective Tax Rate	25.6%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	43.6%	43.6%	43.6%	43.6%
Accounts Receivables Days	150.81	147.71	162.62	160.15
Inventory Days	215.69	208.16	207.95	204.80
Accounts Payables Days	(136.59)	(129.92)	(133.48)	(131.45)
ROIC (%)	99.9%	44.6%	50.8%	52.5%
ROCE (%)	25.7%	28.6%	27.9%	28.6%
Return On Average Assets	7.5%	9.0%	9.2%	9.5%

12-mth Fwd Rolling FD Core P/E (x)



Key Drivers

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Order inflows	180,000	198,000	281,160	295,218
yoy growth (%)	18	10	42	5
Sales	150,437	174,528	191,133	220,028
yoy growth (%)	9	16	10	15
Book to bill ratio	28	30	32	32
Order backlog	575,700	599,172	689,199	764,389
yoy growth (%)	8	4	15	11
EBITDA margin (%)	22	23	23	23

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