

Better-than-expected performance...

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

Q4FY22 Results: BEL reported a better-than-expected performance.

- Revenue declined 8.4% YoY to ₹ 6324.9 crore (I-direct estimate: ₹ 6320.5 crore). FY22 revenues were at ₹ 15313.7 crore, up 8.9% YoY
- EBITDA margin declined 374 bps YoY to 24.8%; better than estimate of 22.4%, mainly due to lower other cost. EBITDA declined 20.4% YoY to ₹ 1567.8 crore (I-direct estimate: ₹ 1417.9 crore)
- PAT declined 15.6% YoY to ₹ 1141.8 crore; better than estimate of ₹ 1003 crore, primarily due to better-than-expected margins
- BEL's order book was at ₹ 57570 crore as of March 2022 end

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 ₹ 290 i.e. 24x 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 ~16.8%, 14.4%, respectively, in FY22-FY24E aided by sustained margins in range of 20-22%
- 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, enhancing RoEs and reducing debt make it an attractive bet to ride the infrastructure revival theme
- BUY with target price of ₹ 1930



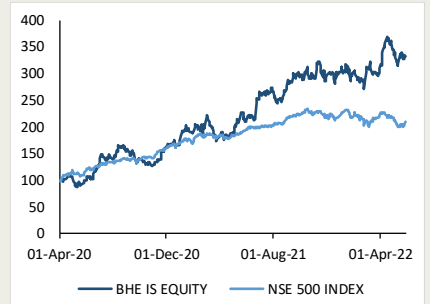
Particulars

Particular	Amount
Market Capitalization	₹ 57162 Crore
Total Debt (FY22)	₹ 72.1 Crore
Cash and Inv (FY22)	₹ 1239.4 crore
EV (FY22)	₹ 54155 Crore
52 week H/L (₹) (BSE)	260 / 141
Equity capital	₹ 243.7 Crore
Face value	₹ 1

Shareholding pattern

%	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	51.1	51.1	51.1	51.1
FII	14.1	15.7	17.2	16.77
DII	28.9	28.3	26.8	26.71
Others	5.9	4.8	4.9	5.42

Price Performance



Recent Events & Key Risks

- (i) Muted order inflows and execution delays (ii) Deferral of receivables payments to defence PSUs

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Key Financial Summary

(₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	12,921	14,064	15,314	12.6%	18,138	20,903	16.8
EBITDA	2,730	3,181	3,309	13.4%	3,920	4,333	14.4
EBITDA margin (%)	21.1	22.6	21.6		21.6	20.7	
Net Profit	1,794	2,065	2,349	8.7%	2,684	2,960.7	12.3
EPS (₹)	7.4	8.5	9.6		11.0	12.2	
P/E (x)	31.9	27.7	24.3		21.3	19.3	
EV/EBITDA (x)	20.2	17.0	16.9		14.4	12.4	
RoCE (%)	25.1	27.2	26.2		27.9	27.9	
RoE (%)	18.2	19.1	19.6		20.9	20.9	

Key takeaways of recent quarter

Q4FY22 & FY22 Results:

- Revenue from operations declined 8.4% YoY to ₹ 6,324.9 crore, in-line with our estimate of ₹ 6,320.5 crore. Sequentially, revenues increased 71.2%
- Gross profit margin improved marginally to 41.8% vs. 41.1% in Q4FY21 (I-direct estimate: 41.4%)
- EBITDA margin declined 374 bps YoY to 24.8%; better than I-direct estimate of 22.4%, mainly due to other expenditure. Subsequently, EBITDA declined 20.4% YoY to ₹ 1,567.8 crore (I-direct estimate: ₹ 1,417.9 crore). Sequentially, EBITDA was up 90.7%
- Net profit declined 15.6% YoY to ₹ 1,141.8 crore; better than I-direct estimate of ₹ 1,003 crore, primarily due to better-than-expected EBITDA margins. PAT was up 95.7% on a QoQ basis
- On a full year basis, FY22 revenues were at ₹ 15,313.7 crore, up 8.9% YoY. EBITDA increased ~4% YoY to ₹ 3,309.2 crore as better revenue growth was partially negated by contraction in EBITDA margin. PAT for FY22 increased 13.7% YoY to ₹ 2,348.9 crore

Q4FY22 Presentation highlights

- Defence business contributed ~88% to revenues while non-defence business contributed ~12% to revenues. Turnover from indigenous technology was 78%
- Major orders executed during FY22 were long range surface to air missile, Akash weapon system, fire control system, integrated air command & control system, advanced composite communication system, integrated electronic warfare suite, coastal surveillance system
- The company has bagged orders to the tune of ~₹ 19,200 crore in FY22 while total order backlog was at ₹ 57,570 crore as of March 2022 end
- Major orders received were avionics package for LCA, advanced electronic warfare (EW) suite for fighter aircraft and ships, instrumented electronic warfare range (IEWR), electronic voting machine & VVPAT, RWR & MAWS for C-295 Aircraft, gun electronic upgrade and weapon locating radar
- BEL achieved export turnover of \$33 million, ~36% lower than turnover of \$51.3 million (mn) achieved in FY21. Export order book was at \$269 mn and acquired orders worth \$179 mn
- Major export products include coastal surveillance system, sub systems of radar and EW systems, data link II, cable looms, communication equipment, radar finger printing system, etc
- The company has also signed a contract with Airbus for supply of radar warning receiver (RWR) and missile approach warning systems (MAWS) as part of offset under C295 aircraft programme of GoI
- The company plans to increase the total share of non-defence business in total sales to 20% in the next two to three years from ~12% at present. The company plans to focus on manufacturing for the civil aviation and healthcare solutions sectors, and for railway/metro stations
- BEL has spent ~₹ 465 crore in FY22 as part of capex investment towards modernisation of plant & machinery, test instruments, R&D investments, infrastructure upgradation, etc

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Operating Income	6,324.9	6,320.5	6,908.3	-8.4	3,694	71.2	Revenues came in-line with estimates
Other income	63.8	65.2	57.2	11.5	59	7.6	
Total Revenue	6,388.7	6,385.7	6,965.5	-8.3	3,753.0	70.2	
Raw materials costs	3,681.1	3,703.6	4,069.3	-9.5	2,200	67.3	
Employees Expenses	577.8	643.4	478.2	20.8	504	14.7	
Other Expenses	498.3	555.7	390.3	27.7	168	197.5	
Total Expenditure	4,757.1	4,902.6	4,937.8	-3.7	2,872	65.7	
EBITDA	1,567.8	1,417.9	1,970.6	-20.4	822.1	90.7	
EBITDA margins (%)	24.8	22.4	28.5	-374 bps	22.3	253 bps	EBITDA margins came better than estimates due to lower than expected other cost, which also led to better than expected PAT
Interest	4.1	2.0	5.6		0.2		
Depreciation	101.0	126.5	91.7	10.2	92.9	8.7	
Tax	384.8	351.6	578.2	-33.5	205.0	87.7	
PAT	1,141.8	1,003.0	1,352.4	-15.6	583.4	95.7	

Source: Company, ICICI Direct Research

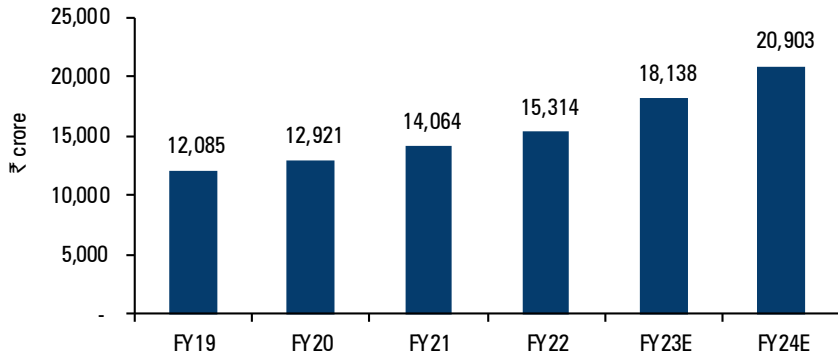
Exhibit 2: Change in estimates

	FY20	FY21	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	12,921	14,064	15,314	18,413	18,138	-1.5	21,060	20,903	-0.7
EBITDA	2,730	3,181	3,309	3,975	3,920	-1.4	4,360	4,333	-0.6
EBITDA Margin (%)	21.1	22.6	21.6	21.6	21.6		20.7	20.7	
PAT	1,794	2,065	2,349	2,740	2,684	-2.0	3,037	2,961	-2.5
EPS (₹)	7.4	8.5	9.6	11.2	11.0	-2.0	12.5	12.2	-2.5

Source: Company, ICICI Direct Research

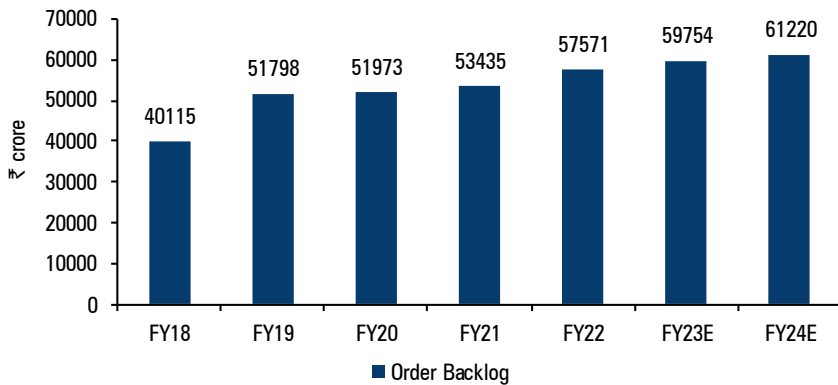
Financial story in charts

Exhibit 3: Revenue trend



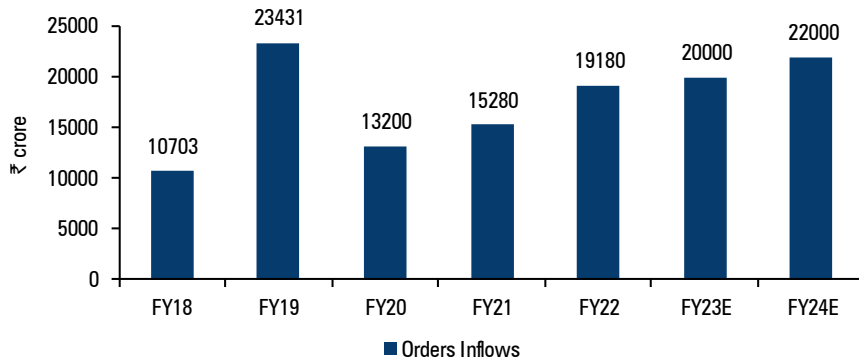
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



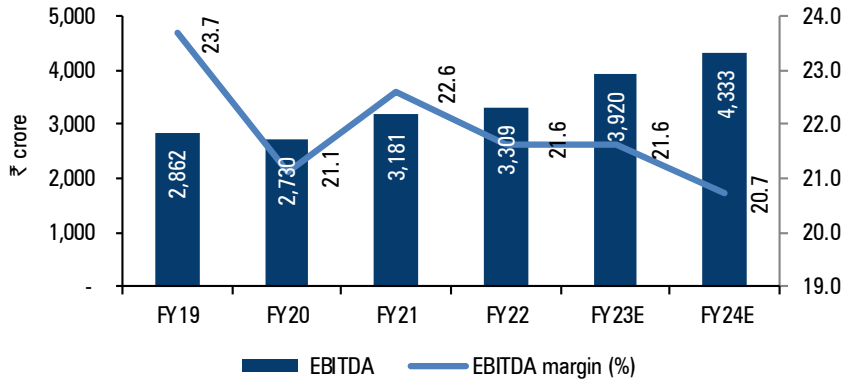
Source: Company, ICICI Direct Research

Exhibit 5: Order inflow trend



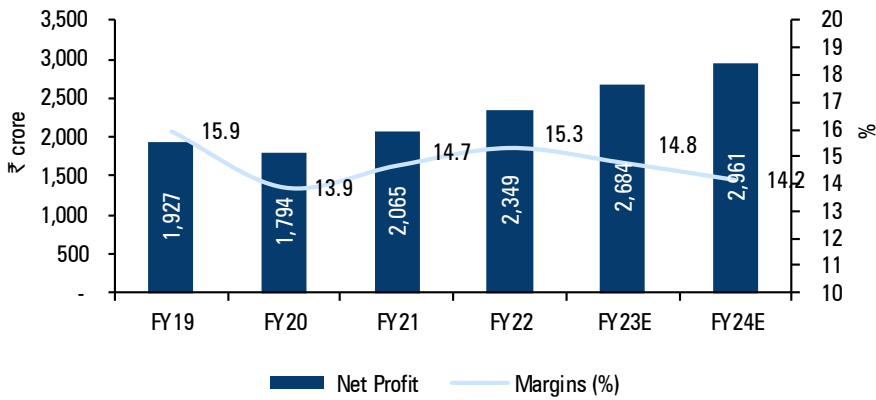
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



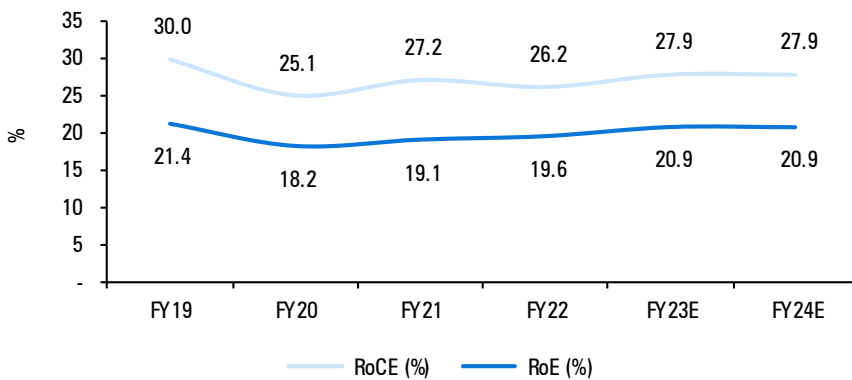
Source: Company, ICICI Direct Research

Exhibit 7: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 8: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					
₹ crore					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	12,608	13,818	15,044	17,817	20,534
Other operating income	313	246	270	321	370
Revenue	12,921	14,064	15,314	18,138	20,903
% Growth		8.8	8.9	18.4	15.2
Other income	101.9	126.1	233.6	178.0	190.0
Total Revenue	13,023	14,199	15,314	18,138	20,903
% Growth		9.0	7.9	18.4	15.2
Total Raw Material Costs	7,105	7,828	8,903	10,280	11,992
Employee Expenses	2,058	1,941	2,109	2,263	2,608
other expenses	1,028	1,114	993	1,675	1,971
Total Operating Expenditure	10,191	10,883	12,005	14,218	16,571
Operating Profit (EBITDA)	2,730	3,181	3,309	3,920	4,333
% Growth		16.5	4.0	18.4	10.5
Interest	3	6	5	5	5
PBDT	2,829	3,301	3,538	4,093	4,518
Depreciation	350	366	380	490	543
PBT before Exceptional Item	2,479	2,935	3,158	3,603	3,974
Total Tax	685	869	809	919	1,013
PAT before MI	1,794	2,065	2,349	2,684	2,961
Minority Interest	-	-	-	-	-
PAT	1,794	2,065	2,349	2,684	2,961
% Growth		15.1	13.7	14.3	10.3
EPS	7.4	8.5	9.6	11.0	12.2

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					
₹ crore					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	243.7	243.7	243.7	243.7	243.7
Reserve and Surplus	9,609	10,564	11,741	12,601	13,941
Total Shareholders funds	9,853	10,808	11,984	12,845	14,185
Other Non Current Liabilities	1.3	-	-	-	-
Total Debt	49	8	72	72	72
Total Liabilities	9,972	12,288	13,918	14,778	16,119
Gross Block	2,985	3,764	4,045	4,956	5,632
Acc: Depreciation	1,268	1,623	2,003	2,493	3,036
Net Block	2,497	2,423	2,454	2,463	2,596
Capital WIP	199	351	399	600	500
Total Fixed Assets	2,719	2,831	2,922	3,132	3,165
Non Current Assets	2,061	894	1,326	1,326	1,326
Inventory	3,963	4,915	5,540	6,212	6,643
Debtors	6,733	6,552	8,970	9,939	10,022
Loans and Advances	1,409	1,689	2,997	2,997	2,997
Other Current Assets	4,675	6,906	7,768	9,069	10,452
Cash	2,040	3,016	1,239	936	3,627
Total Current Assets	19,129	23,577	27,157	29,796	34,384
Current Liabilities	2,567	4,253	4,325	4,721	5,441
Provisions	-	1,407	1,800	1,800	1,800
Total Current Liabilities	13,939	16,765	19,532	21,520	24,801
Net Current Assets	5,191	6,812	7,625	8,275	9,583
Total Assets	9,972	12,288	13,918	14,778	16,119

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					
₹ crore					
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	1,794	2,065	2,349	2,684	2,961
Depreciation	350	366	380	490	543
Interest	3	6	5	5	5
Cash Flow before WC changes	2,147	2,438	2,734	3,179	3,509
Changes in inventory	492	(953)	(624)	(672)	(432)
Changes in debtors	(1,364)	181	(2,418)	(969)	(84)
Changes in loans & Advances	178	(280)	(1,308)	-	-
Changes in other current assets	(1,408)	(2,231)	(862)	(1,301)	(1,383)
Net Increase in Current Assets	(2,130)	(3,472)	(5,357)	(2,941)	(1,898)
Changes in creditors	994	1,686	71	396	720
Changes in provisions	96	(1,133)	73	56	72
Net Inc in Current Liabilities	2,591	2,826	2,767	1,988	3,281
Net CF from Operating activities	2,608	1,792	144	2,226	4,892
Changes in deferred tax assets	(26)	34	(157)	-	-
(Purchase)/Sale of Fixed Asset	(263)	(478)	(472)	(700)	(500)
Net CF from Investing activities	(346)	341	(807)	(700)	(500)
Dividend and Dividend Tax	(910)	(1,023)	(1,329)	(1,614)	(1,614)
Net CF from Financing Activities	(944)	(1,158)	(1,113)	(1,829)	(1,702)
Net Cash flow	1,318	976	(1,776)	(303)	2,690
Opening Cash/Cash Equivalent	722	2,040	3,016	1,239	936
Closing Cash/ Cash Equivalent	2,040	3,016	1,239	936	3,627

*calculated, Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
EPS	7.4	8.5	9.6	11.0	12.2
Cash per Share	8.4	12.4	5.1	3.8	14.9
BV	40.4	44.4	49.2	52.7	58.2
Dividend per share	3.1	3.5	4.5	5.5	5.5
Dividend payout ratio	42%	41%	47%	50%	45%
EBITDA Margin	21.1	22.6	21.6	21.6	20.7
PAT Margin	14.2	14.9	15.6	15.1	14.4
RoE	18.2	19.1	19.6	20.9	20.9
RoCE	25.1	27.2	26.2	27.9	27.9
RoIC	30.3	36.1	27.1	28.6	35.6
EV / EBITDA	20.2	17.0	16.9	14.4	12.4
P/E	31.9	27.7	24.3	21.3	19.3
EV / Net Sales	4.3	3.9	3.7	3.1	2.6
Sales / Equity	1.3	1.3	1.3	1.4	1.5
Market Cap / Sales	4.4	4.1	3.7	3.2	2.7
Price to Book Value	5.8	5.3	4.8	4.5	4.0
Asset turnover	1.3	1.3	1.3	1.4	1.5
Debtors Turnover Ratio	2.1	2.1	2.0	1.9	2.1
Creditors Turnover Ratio	6.2	4.1	3.6	4.0	4.1
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	3.5	4.4	5.3	5.4	5.0
Quick Ratio	2.7	3.3	4.2	4.2	3.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1654	1,930	Buy	232089	50.2	65.5	72.9	32.9	25.3	22.7	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2435	2,900	Buy	86715	29.5	36.6	48.2	82.6	66.4	50.6	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2265	2,570	Buy	21364	64.6	76.3	85.7	35.1	29.7	26.4	16.5	17.2	17.1	13.2	13.7	13.7
Thermax (THERMA)	1992	2,449	Buy	23736	26.2	39.3	54.4	76.0	50.7	36.6	11.3	15.6	19.2	9.0	12.2	14.9
KEC International (KECIN)	397	379	Hold	10207	12.7	15.8	25.3	31.3	25.1	15.7	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	155	179	Buy	3584	0.7	2.8	3.3	219.0	56.2	47.0	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	344	390	Buy	10902	5.7	6.6	8.7	60.2	52.2	39.6	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	235	290	Buy	57162	9.6	11.0	12.2	24.4	21.3	19.3	26.2	27.9	27.9	19.6	20.9	20.9
Cochin Shipyard (COCSHI)	323	340	Hold	4249	42.9	38.6	42.3	7.5	8.4	7.6	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	3595	3,720	Buy	17773	77.0	89.6	103.5	46.7	40.1	34.7	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	2294	2,810	Buy	17255	43.5	54.8	62.5	82.6	65.6	57.5	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	123	220	Buy	1192	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	199	230	Buy	2370	9.8	11.5	13.6	20.3	17.3	14.6	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	763	870	Buy	3959	18.1	21.7	27.2	42.1	35.2	28.1	23.8	24.4	25.8	16.4	18.1	19.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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