

Quarterly Update Q2FY23

Bharat Electronics Ltd.

Steady performance; maintain "Tactical BUY"

Bharat Electronics (BEL) reported strong 2QFY23 results broadly inline estimates. Revenue came in at INR 3946 cr, +7.8% YoY/+26.8% QoQ with EBITDA margin of 21.7% (vs 23.4% YoY and 16.5% QoQ). 2QFY23 margin is slightly lower than to margins profile in 2Q's of pre-pandemic (for e.g. 24% in 2QFY18, 25.3% in 2QFY19 and 19.9% in 2QFY20). PAT came at INR 611 cr, -0.3% YoY/+41.6% QoQ, driven by better revenues and operating leverage. Order book at the end of 1QFY23 is INR 52,795 Cr, implying that new order intake in the quarter was quite weak at INR 1,370 Cr (slightly better than 1QFY23 order intake). We believe BEL will regain and sustain double digit revenue growth in FY23-24. We expect the company to deliver 21%/24% revenues/PAT CAGR over FY22-24E. Using 26x PE multiple (largely inline current trailing multiples), we raise target price to INR 130 (at 26x FY24 earnings).

Strong order book to drive revenue growth; Addition of INR 8,060 cr order from Triton Electric

BEL has a strong order book position of INR 52,795 Cr. In Oct-2022, BEL signed INR 8,060 cr contract with Triton Electric vehicle for supply of battery packs for electric trucks. This contract is not reflected in the order book, and adjusting for it the order book would be INR 60,855 cr. Triton contract is executable over CY23 & CY24.

Moderation in book to bill ratio along expected lines

Book-to-bill ratio stands at 3.13x (LTM basis) compared to 3.8x after 4QFY22 and 3.3x after 1QFY23, Moderation in book to bill ratio is along expected lines as de-bottlenecking (from normalcy in execution and easing of supply chain) will lead to normalized/quicker order-to-revenue conversion and seasonality in order intake (whereby 1H is usually softer).

Valuation

We believe BEL will regain and sustain double digit revenue growth in FY23-24, based on strong order book position, strong project line-ups, and easing of supply chains. Order book stands at INR 52,795 Cr and after adjusting for Triton Electric vehicle contract of INR 8,060 Cr, order book would be INR 60,855 cr. With strong order book in hand and parallel execution capability for multiple platforms, BEL has a strong P/L growth visibility. Further, it is emerging as a key beneficiary of increase in defence capital expenditure. Rising local player allocation & Gol's focus on exports in defence are material growth tailwinds for the company. We expect BEL's top-line growth to improve for FY23/24 given better new order growth in past two years & normalisation in supply chain. We raise our FY24E earnings by ~12% and using 26x PE multiple (largely inline current trailing multiples), we raise target price to INR 130 (at 26x FY24 earnings).

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CMP: INR 106
Rating: Buy
Target price: INR 130
Upside: 23%
Date: October 31, 2022

Bloomberg:	BHE:IN
52-week range (INR):	61/ 115
M-cap (INR cr):	77,009
Promoter holding (%)	51.14

Year to March (INR Cr)	Q2FY23	Q2FY22	% Change	Q1FY23	% Change
Net Revenue	3,946	3,661	7.8	3,113	26.8
EBITDA	856	857	-0.1	514	66.7
Adjusted Profit	611	613	-0.3	432	41.6
Diluted EPS (INR)	0.8	0.8	-0.3	0.6	41.6

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Year to March	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	3Y CAGR	H1FY23	H1FY22	YoY (%)	3Y CAGR	FY22	FY23E	FY24E
Revenues	3,946	3,661	7.8	3,113	26.8	12.9	7,059	5,295	33.3	13.4	15,314	18,080	22,336
Materials cost	2,238	2,067	8.3	1,809	23.8		4,047	3,021	33.9		8,903	9,836	12,061
Staff costs	596	533	11.8	576	3.3		1,172	1,028	14.0		2,109	2,640	3,261
Other expenses	256	205	25.2	215	19.5		471	327	44.0		993	1,501	1,899
Total expenditure	3,090	2,804	10.2	2,599	18.9		5,689	4,376	30.0		12,005	13,976	17,221
EBITDA	856	857	-0.1	514	66.7	16.2	1,369	919	48.9	15.3	3,309	4,104	5,115
Interest	2	1		1			3	1			5	7	7
Depreciation	104	94	10.7	94	10.7		198	186	6.4		380	435	441
Other income	75	66	13.9	160	-53.0		235	111	112.4		234	350	314
Add: Exceptional items											-	-	-
PBT	825	828	-0.3	578	42.7		1,403	843	66.4		3,158	4,012	4,980
Tax	214	215	-0.6	147	45.8		360	219	64.5		809	1,043	1,395
Reported profit	611	613	-0.3	432	41.6		1,043	624	67.1		2,349	2,969	3,586
Adjusted profit	611	613	-0.3	432	41.6	21.6	1,043	624	67.1	24.2	2,349	2,969	3,586
Equity capital	731	731		731			731	731			244	244	244
No. of shares (Cr)	731	731		731			731	731			731	731	731
Adj. diluted EPS (INR)	1	1		1			1	1			3	4	5
As % of net revenues													
Raw material	57	57	0.3	58			57	57	0.3		58	54	54
Staff expenses	15	15		19			17	19			14	15	15
Other expenses	7	6	0.9	7			7	6	0.5		7	8	9
EBITDA	22	23	-1.7	17			19	17	2.0		22	23	23
Adjusted profit	16	17		14		1.6	15	12			15	16	16

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Financials

Income Statement (INR Cr)

Year to March	FY21A	FY22A	FY23E	FY24E
Total operating income	14,064	15,314	18,080	22,336
Gross profit	6,236	6,411	8,245	10,275
Employee costs	1,941	2,109	2,640	3,261
Other expenses	1,114	993	1,501	1,899
EBITDA	3,181	3,309	4,104	5,115
Depreciation	366	380	435	441
Less: Interest expense	6	5	7	7
Add: Other income	126	234	350	314
Profit before tax	2,935	3,158	4,012	4,980
Prov for tax	869	809	1,043	1,395
Less: Other adj	-	-	-	-
Reported profit	2,065	2,349	2,969	3,586
Less: Excp.item (net)	-	-	-	-
Adjusted profit	2,065	2,349	2,969	3,586
Diluted shares o/s	244	244	244	244
Adjusted diluted EPS	9	10	12	15
DPS (INR)	12	14	6	7
Tax rate (%)	30	26	26	28

Important Ratios (%)

Year to March	FY21A	FY22A	FY23E	FY24E
COGS (% of rev)	55.7	58.1	54.4	54
Employee cost (% of rev)	13.8	13.8	14.6	14.6
Other exp (% of rev)	7.9	6.5	8.3	8.5
EBITDA margin (%)	22.6	21.6	22.7	22.9
Net profit margin (%)	14.7	15.3	16.4	16.1
Revenue growth (% YoY)	9.6	8.9	18.5	23.8
EBITDA growth (% YoY)	16.5	4	24	24.6
Adj. profit growth (%)	15.1	13.7	26.4	20.8

Valuation Metrics

Year to March	FY21A	FY22A	FY23E	FY24E
Diluted P/E (x)	12.7	11.2	8.9	7.3
Price/BV (x)	2.4	2.2	1.9	1.7
EV/EBITDA (x)	7.3	7.6	5.1	3.7
Dividend yield (%)	11.1	12.5	5.1	6.1

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Balance Sheet (INR Cr)

Year to March	FY21A	FY22A	FY23E	FY24E
Share capital	244	244	244	244
Reserves	10,564	11,741	13,374	15,346
Shareholders funds	10,808	11,984	13,617	15,589
Minority interest	-	-	-	-
Borrowings	-	-	-	-
Trade payables	4,253	4,325	4,042	5,287
Other liabs & prov	12,048	14,587	16,986	18,891
Total liabilities	28,590	32,829	36,579	41,701
Net block	2,423	2,455	2,522	2,585
Intangible assets	57	69	71	73
Capital WIP	736	859	859	859
Total fixed assets	3,216	3,383	3,452	3,517
Non current inv	1,367	1,584	1,584	1,584
Cash/cash equivalent	3,016	1,239	5,225	7,617
Sundry debtors	8,609	12,467	10,402	11,627
Loans & advances	-	-	-	-
Other assets	12,382	14,156	15,915	17,356
Total assets	28,590	32,829	36,579	41,701

Free Cash Flow (INR Cr)

Year to March	FY21A	FY22A	FY23E	FY24E
Reported profit	2,065	2,349	2,969	3,586
Add: Depreciation	366	380	435	441
Interest (net of tax)	4	4	5	5
Others	408	-121	-355	-319
Less: Changes in WC	2,260	1,550	2,423	485
Operating cash flow	5,104	4,161	5,477	4,198
Less: Capex	466	546	505	505
Free cash flow	4,637	3,615	4,972	3,693

Key Ratios

Year to March	FY21A	FY22A	FY23E	FY24E
RoE (%)	20	20.6	23.2	24.6
RoCE (%)	28.5	27.8	31.4	34.2
Inventory days	208	216	223	200
Receivable days	203	251	231	180
Payable days	175	176	155	141
Working cap (% sales)	30.6	47.1	26.2	19
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	-0.3	-0.1	-0.4	-0.5
Interest coverage (x)	463	603.9	521.7	633

Year to March	FY21A	FY22A	FY23E	FY24E
EPS growth (%)	15.1	13.7	26.4	20.8
RoE (%)	20	20.6	23.2	24.6
EBITDA growth (%)	16.5	4	24	24.6
Payout ratio (%)	141.6	140	45	45

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Vinay Khattar	Head of Research
Sandeep Raina	Head - Fundamental
Sagar Doshi	Head - Trading
Arun Jain	Practice Head - Trading
Kavita Chacko	Chief Economist
Amit Agarwal	Infra, Real Estate, Hotels
Praveen Sahay	Consumer Durables, Building materials, Healthcare services, Hospitality
Kapil Jagasia	Consumption, Textile, QSR, Retail
Raj Jha	BFSI, NBFC
Jigar Jani	BFSI, NBFC
Ranvir Singh	Pharma, Chemicals
Himanshu Yadav	Cement, Logistics, Mid-caps
Sushil Sharma	IT, Capital Goods, Defence
Tushar Chaudhari	Metals, Mid- Caps
Parag Shah	Technical Analyst
Ankit Narshana	Option Trader
Nikhil Shetty	Mid Caps

Sales Team	Location
Sharad Tripathi	Mumbai
Ketan Malkan	Mumbai
Vikas Sharma	Bengaluru
Abhishek Agarwal	Kolkata
Vivek Khanna	Delhi

Coverage Universe

Sr. No	Coverage
1	Aditya Birla Fashion & Retail Ltd
2	Aegis Logistics Ltd
3	Amber Enterprises India Ltd
4	Astral Ltd
5	Balaji Amines Ltd
6	Bata India Ltd
7	Birla Corporation Limited
8	Can Fin Homes Ltd
9	Century Plyboards India Ltd
10	Cholamandalam Inv and Finance Ltd
11	City Union Bank Ltd
12	CreditAccess Grameen Ltd
13	Crompton Greaves Consumer Electricals Ltd
14	CSB Bank Ltd
15	Deepak Nitrite Ltd
16	Easy Trip Planner Ltd
17	Escorts Ltd
18	Finolex Industries Ltd
19	Home First Finance Company India Ltd
20	Indo Count Industries Ltd
21	K P R Mill Ltd
22	KNR Constructions Ltd
23	Krishna Institute of Medical Sciences Ltd
24	Lumax Industries. Ltd
25	Metropolis Healthcare Ltd
26	Minda Industries Ltd
27	Motherson Sumi Ltd
28	Navin Fluorine International Ltd
29	Neogen Chemicals Ltd
30	Newgen Software Technologies Ltd
31	Orient Electric Ltd
32	PSP Projects Ltd
33	Rossari Biotech Ltd
34	Shriram Transport Finance Company Ltd
35	SRF Ltd
36	Vinati Organics Ltd
37	Voltas Ltd
38	Westlife Development Ltd
39	Zydu Wellness Ltd
40	Tarsons Products Ltd
41	MTAR Technologies Ltd.
42	S J S Enterprises Ltd

Sr. No	Tactical Buy
1	ACC Ltd
2	Ajanta Pharma Ltd
3	Ambuja Cements Ltd
4	Ashok Leyland Ltd
5	Axis Bank Ltd
6	Bharat Electronics Ltd
7	Brigade Enterprises Ltd
8	DLF Ltd
9	eClerx Services Ltd
10	Globus Spitiis Ltd
11	GNA Axles Ltd
12	HDFC Life Insurance Co. Ltd
13	ICICI Bank Ltd
14	Indusind Bank Ltd
15	Jamna Auto Industries Ltd
16	JK Cement Ltd
17	Larsen & Toubro Ltd
18	Mahindra and Mahindra Ltd
19	Max Financial Services Ltd
20	Max Healthcare Institute Ltd
21	PNC Infratech Ltd
22	RBL Bank Ltd
23	Sun Pharma Ltd
24	TechMahindra Ltd
25	Ultratech Cement Ltd
26	Elecon Engineering Company Ltd
27	Kennametal India Ltd

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