



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

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

2. MANAGEMENT COMMENTARY:

- The order book position of BEL was at Rs.60690 crore as of March 2023 end (3.4x FY23 revenues). Order inflows were at Rs. 20600 crore during FY23.
- 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 ~Rs.20,000 crore. Major orders in pipeline are: Akash Prime (~Rs. 4,400 crore), fuses (~Rs.4500 crore), shipbuilding electronics systems for various warships (Rs. 5000-6000 crore), Shakti electronic warfare (~Rs. 1000 crore), etc.
- R&D expenditure for FY23 was at Rs.1088 crore (6.2% of sales). The company is targeting R&D spend at ~7% of sales for FY24.

3. DEBT AND CAPEX:

- Capex for FY24 is expected at Rs. 700-800 crore, Going forward, annual capex is expected at ~Rs. 500 crore.

4. CONCALL SUMMARY

- Defence and non-defence revenue mix was at 87% and 10.6%, respectively, during FY23. Exports revenue was at \$48 mn (~Rs. 390 crore) during the year, which implies 2.4% of sales.
- 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.

5. OTHER DEVELOPMENTS:

- 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.
- Regarding the letter of intent (LoI) of Rs. 8060 crore from Triton Electric Vehicle India (TEV India) for supply of 300 KW Li-Ion battery packs for their semitruck project in India, the company has supplied battery samples to TEV and they are in the process of evaluation.

6. VALUATION AND OUTLOOK:

- Strong balance sheet, double digit returns ratios & strong order pipeline over the next three to five years.
- Overall, expected double digit revenue, order inflow growth, sustained margins and strong order book to ensure a better performance.
- Strategy to diversify into non-defence areas, focus on increasing exports and services share would aid long term growth.

We have maintained BUY rating on stock and value the stock at 26x FY25 earnings to arrive at the target of Rs.138.

RECOMMENDATION - BUY

CMP – 117.5

TARGET – 138 (17.44%)

Industry	Defence
NSE CODE	BEL
BSE CODE	500049
Market Cap (₹ Cr)	85926
Shares Outstanding (in Cr)	730.98
52 wk High/Low (₹)	119/74.6
P/E	28.8
P/BV	6.24
Face Value (₹)	1.00
Book Value (₹)	19
EPS (FY23) (₹)	4.08
Dividend Yield (%)	1.27
Debt / Equity	0.00
OPM (FY23)	23%

SHAREHOLDING PATTERN

	Mar 23	Dec 22	Sep 22
Promoters	51.14	51.14	51.14
MF/ DII	20.07	20.56	21.19
FII/FPI	16.42	17.34	17.36
Retail & Others	6.94	6.47	5.88
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

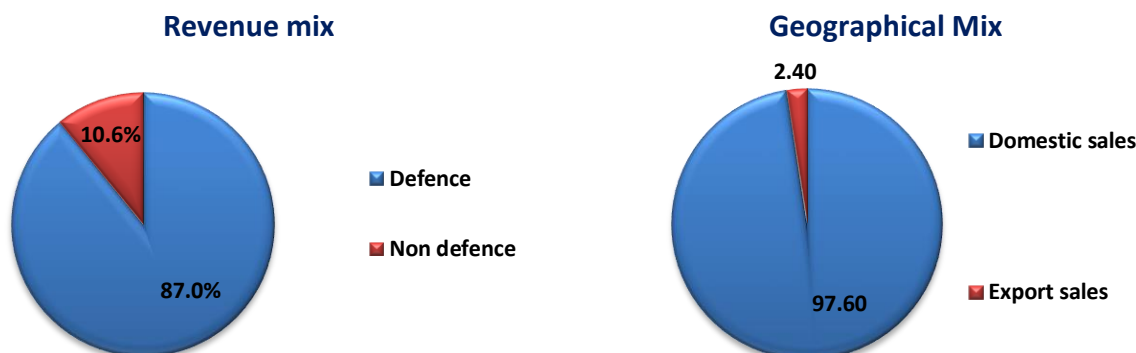
Y/E March	2023A	2024E	2025E
Core			
Sales	17734	20749	25936
Sales Gr. (%)	15.40	17	25
EBITDA	4086	4772	5706
EBITDA M %	23	23	22
PAT	2986	3283	3891
EPS (₹)	4.1	4.5	5.3
EPS Gr. (%)	24.24	10	18
Ratios			
RoE (%)	21.53	21.1	23
RoCE (%)	26.38	28	29
Valuation			
P/E (x)	23.87	24	26
Div. Yield	1.37	2.1	2.4

Historical & Industrial Val Ratios

Historical P/E	44.05
Industry P/E	47.83
Historical P/B	4.11
Industry P/B	3.67



REVENUE SPLIT IN Q4FY23



Y/E March	FY22				FY23				FY24	FY23	FY24E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QE*		
Net sales	1575	3637	3661	6212	3087	3907	4065	6345	4651	17734	20749
YoY change (%)	-4.04	14.78	61.28	-8.24	96.00	7.45	11.04	2.13	50.66	15.40	17.00
Total Expenditure	1579	2814	2872	4762	2618	3093	3290	4513	3441	13649	15977
EBITDA	70	864	829	1578	522	868	863	1832	1210	4086	4772
YoY change (%)	52.06	37.73	81.78	-20.36	645.92	0.49	4.11	16.12	131.8	22.20	16.79
Depreciation	97	99	98	106	99	109	106	114	125	429	520
Interest	0	0	0	4	1	2	10	2	4	15	10
Other income	45	62	60	64	82	74	59	66	55	281	255
PBT	18	827	791	1531	504	831	806	1782	1136	3923	4497
Tax	5	216	206	385	148	216	203	415	318.1	937	1214
Rate (%)	27	26	26	25	29	26	25	23	28	25	27
Adjusted PAT	13	610	585	1147	356	615	603	1366	818	2986	3283
EPS	0.03	0.85	0.82	1.58	0.50	0.85	0.84	1.89	1.12	4.10	4.5
Key Performance Indicators											
RM Cost (% of Sales)	58	56	59	58	58	56	58	52		55	
Staff Cost (% of Sales)	30	15	14	9	18	15	14	9		13	
Other Costs (% of Sales)	12	29	27	33	24	29	28	39		32	
EBITDA Margin (%)	4.44	23	22	25	17	22	21	28	26	23	19.83
PAT Margin (%)	0.83	16.78	16.1	18.23	11.5	15.75	14.78	21.33	17.6	16.84	10.06

Source: Company, Hem Securities Research.

*Insights into the assumptions:

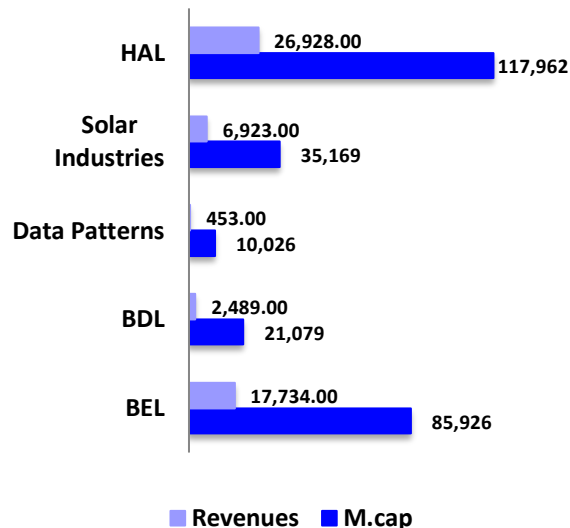
- Expected to see sharp growth in FY24 on the back of Owning to the improving demand dynamics and a strong sales performance in Q4FY23.
- We expect EBITDA and PAT margins to improve supported by favorable pricing and a boost in defence industry led by indigenization of imported defence components in the country.



INDUSTRY OVERVIEW

- Strategic electronic market of India stood at approximately USD 600 cr in 2019 and is expected to touch USD 1500 cr by 2032, driven by the rise in indigenous manufacturing modern featured weapon systems, procurement of advanced weapons systems and rejuvenation of existing product/weapons systems.
- With Government initiatives, the expenditure on defence procurement from foreign sources which used to be 46 % of the overall expenditure has reduced to 36 % in the last four years i.e. 2018-19 to 2021-22.
- The share of domestic procurement in overall defence procurement is about 60%. In order to enhance procurement from domestic industry, it is incumbent that procurement is doubled from the current Rs.70,000 crore to Rs.1,40,000 crore by 2025.
- Defence exports grew by 334 % in last five years ; India now exporting to over 75 countries due to collaborative efforts.
- Under the Atmanirbhar Bharat Initiative, four positive indigenization lists of 411 products have been prepared by Department of Military Affairs and Ministry of Defence to be manufactured domestically for the defence sector, instead of being sourced via imports.
- India has around 194 defence tech startups building innovative tech solutions to empower and support the country's defence efforts .grow to at a CAGR of 5.68% from FY16 to FY22.

KEY PLAYERS



PEER PERFORMANCE

(₹ Cr)

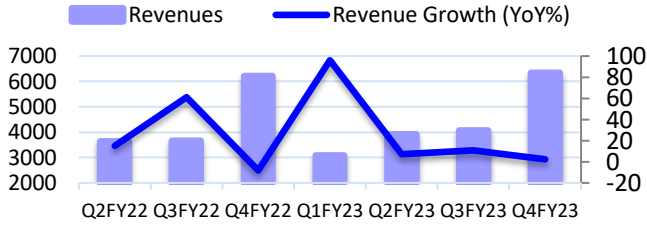
Particulars	BEL	BDL	Data Patterns	Solar Industries	HAL
Market Cap	85926	21079	10026	35169	117962
Net Sales	17734	2489	453	6923	26928
EBITDA	4086	408	172	1289	6663
PAT	2986	352	124	811	5811
EPS(₹)	4.08	19.21	22.15	83.68	173.79
EBITDA MARGIN %	23.25	16	38	19	25
PAT MARGIN %	15.31	14.14	22.15	11.71	21.58
ROCE %	30.10	15.5	19.7	36.0	30.6
ROE %	22.80	11.3	14.2	33.4	27.2
P/E TTM	28.90	60.29	80.36	46.46	20.02
P/B TTM	6.22	6.61	8.54	13.48	5.04
EV/EBITDA	19.7	30.6	52.4	27.4	11.7
Dividend Yield %	1.27	0.72	0.20	0.21	1.42
MCap/ Sales TTM	4.96	8.60	21.97	5.08	4.33

Source: Company, Hem Securities Research.

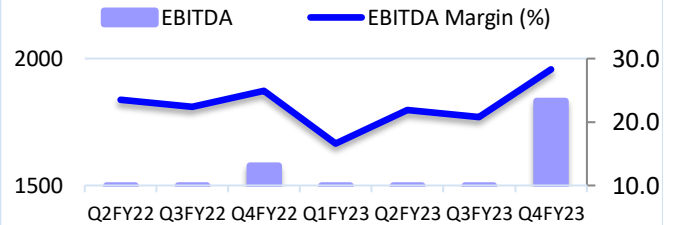


STORY IN CHARTS

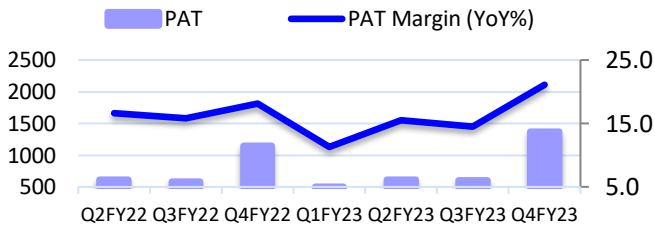
Revenues and Revenues Growth



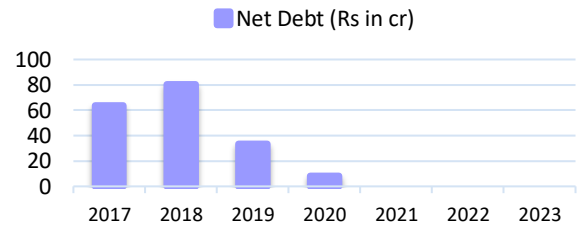
EBITDA and EBITDA Margin



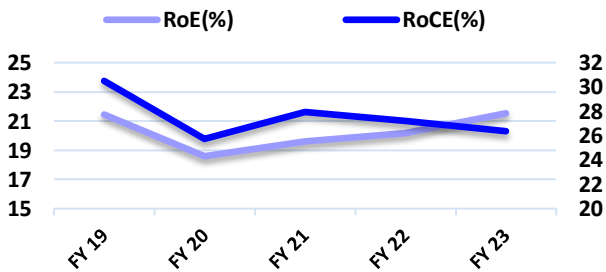
PAT and PAT Margin



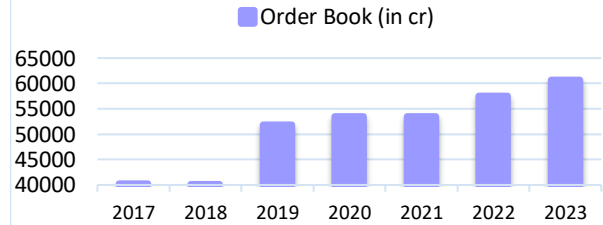
Trend in Net Debt



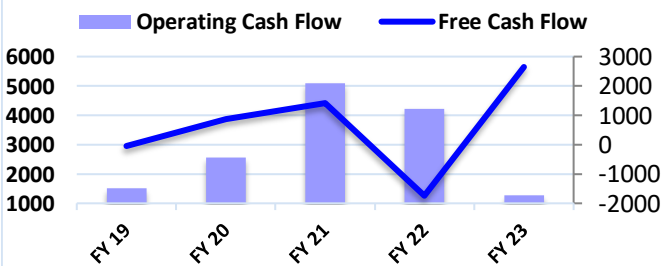
Trend in Return Profile



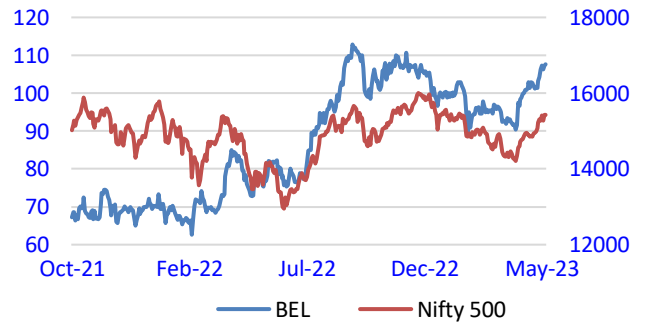
Trend in Order Book



Trend in Cash Flow



BEL Vs Nifty 500





INVESTMENT RATIONALE:

- Government's focus on research and development, increased indigenisation levels and completion of key projects like Brahmos missile, Aakash air defence systems, LAC Tejas, light combat helicopter and submarines provide enough room to grow domestic defence ecosystem. BEL has a strong manufacturing base and execution capabilities of delivering products across all three defence verticals, making it the preferred partner.
- The Indian government has set an ambitious defence production target at US\$25 billion by 2025 (including US\$5 billion from exports by 2025). Out of the 101 defence equipment items banned for import, BEL has capabilities to produce 55 items, while 23 items are under the advanced stages of indigenisation.
- Order book stood at Rs.60690 crore as of 31st Mar 2023, which is ~3.4x of FY23 revenue. Order inflow is expected at Rs.18,000-20,000 in FY24E.
- The company has maintained its revenue growth guidance of 17% and EBITDA margin guidance of 21-23% for FY24E.
- BEL is moving to non-defence sector to reduce dependence from defence business. BEL's non-defence segment contributed ~12% of revenue in FY22 and is expected to contribute ~25% of its revenues by FY24E.
- Company's financial profile remains strong because of healthy profitability and return indicators, zero debt, superior liquidity and strong debt coverage metrics. Company reported revenue CAGR over a decade (from FY13 to FY23) at 11% and the company reported margin at a range of 20-24% over the last six years.

RISK FACTORS:

- BEL's major customer- India Defence Sector, contributed ~ 80% of the revenue in FY22. Any changes in the procurement policy of the defence forces or a significant reduction in defence spending could impact its revenue and order book position. Besides, any adverse change in government policy/terms for Defense PSUs could impact BEL's operation and other relevant PSUs over the longer term.
- Due to the high concentration of the Government sector orders, BEL's revenue generation and cash flows are vulnerable to delays in project execution or final payment clearance in some cases. BEL is targeting to increase the share of non-defence revenues to 25% over the medium term to reduce business dependence.

COMPANY RECAP

- Bharat Electronics Limited is a Navratna PSU (under the Ministry of Defence, Government of India) established in the year 1954. BEL is engaged in the business of Defence Electronics empowering the Nation's Defence Forces and in other chosen areas of Professional Electronics. BEL is principal supplier of electronics to all the three faculties of defense i.e. Army, Air force and Navy.
- Company manufactures electronic communication equipment, night vision equipment such as image converter tubes, night vision binoculars and goggles, periscopes, gunsights and tank electronics. The company's electronic communication products include HF/VHF transmitters, receivers, microwave radio relays, radars, and other electronic components required by defense.
- Company has a network of 9 manufacturing facilities across India catering to a diverse product range spanning multiple business segments. Company is an Indian state-owned aerospace and defence company with about nine factories, and several regional offices in India.
- Some of the countries, where Company's products were exported include USA, France, Israel, Germany, Switzerland, Sweden, China, Republic of Armenia, Maldives, Indonesia, Srilanka, Turkey, Bhutan and SEZs.
- Company has diversified revenue mix: Defence (80%), Non- Defence (20%). The Company aims to achieve and maintain revenues of about 20-25% of its turnover from the non-Defence business in the coming years.
- Company is India's leading player for meeting the country's defense electronic needs with ~55% market share.
- BEL has competitive advantage due to its strong in-house capabilities and joint R&D focus with DRDO (Defence Research & Development Organisation). Company has also been exploring opportunities for growth in allied defense and non-defense areas. Recent events on the border front and Government efforts for being "vocal for local" coupled with the recent embargo on import of 101 defence items provides company a lasting opportunity over the coming years.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

	(₹ Cr)						
Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Revenue from operations	12164	12,968	14,109	15368	17734	20749	25936
Growth YoY (%)	16.95	6.61	8.80	8.92	15.40	17	25
Total Expenditure	9255	10209	10895	12024	13649	15977	20230
(%) of sales	76.09	78.72	77.22	78.2	77	77.00	78
EBITDA	2909	2759	3214	3344	4086	4772	5706
EBITDA Growth (%)	42.67	-5.16	16.49	4.04	22.20	16.79	19.57
EBITDA Margin (%)	24	21	23	22	23	23	22
Depreciation	338	372	387	401	429	520	550
EBIT	2571	2387	2827	2943	3657	4252	5156
EBIT Growth (%)	45.51	-7.16	18.43	19.2	24.3	16.27	21.26
Net Interest Expenses	16	8	10	9	15	10	12
Other Income	73	99	125	232	281	255	260
Earnings before Taxes	2628	2478	2942	3166	3923	4497	5404
EBT Margin (%)	21.6	19.11	20.85	20.60	22.12	21.67	20.84
Tax-Total	788.4	653	842	823	937	1214	1513
Rate of tax (%)	30	28	30	26	25	27	28
Net Profit	1887	1825	2100	2400	2986	3283	3891
PAT Growth (%)	31.87	-3.3	15.07	14.3	24.42	9.95	18.52
PAT Margin (%)	15.51	14.07	14.88	15.6	16.84	16	15
Minority Interest	-	-	-	-	-	-	-
Adjusted PAT	1887	1825	2100	2400	2986	3283	3891
EPS	2.58	2.50	2.87	3.3	4.1	4.5	5.3
EPS Growth (%)	31.63	-3.1	14.80	14.98	24.24	10	18

Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Share Capital	244	244	244	244	731
Reserves	8968	9828	10816	12042	13131
Net Worth	9212	10072	11060	12286	13862
Borrowings	34	8	3	53	0
Other Liabilities	11575	14271	18430	21574	21630
Total Liabilities & Equity	20821	24351	29493	33912	35492
Fixed Assets	2298	2713	2652	2675	3457
Investments	964	1110	1306	1572	201
Other Assets	17559	20528	25534	29665	31834
Total Assets	20821	24351	29493	33912	35492

Source: Company, Hem Securities Research.



Ratios

Y/E March (Basic (INR)	2019	2020	2021	2022	2023
Profitability and return ratios					
Net profit margin (%)	15.19	13.82	14.66	15.31	16.87
EBITDA margin (%)	24.51	22.04	23.66	23.25	23.00
EBIT margin (%)	21.73	19.17	20.91	20.64	20.62
ROE (%)	21.45	18.59	19.59	20.17	21.53
ROCE (%)	30.50	25.73	27.92	27.20	26.38
Working Capital & liquidity ratios					
Payables (Days)	86.6	100.27	134.74	137.25	0
Inventory (Days)	135.35	118.23	115.43	125.32	239
Receivables (Days)	155.8	170.25	171.81	150.36	0
Current Ratio (x)	1.5	1.46	1.41	1.39	1.46
Valuations Ratios					
EV/sales (x)	1.79	1.27	1.80	2.85	4.55
EV/EBITDA (x)	7.31	5.76	7.61	12.25	19.77
P/E (x)	6.00	9.93	14.52	21.42	23.85
P/BV (x)	2.47	1.80	2.76	4.18	5.14
Dividend Yield (%)	3.64	3.77	3.20	2.13	1.37
Leverage Ratio					
Debt/Equity (x)	0.00	0.0	0.0	0.00	0.00

Cash Flow Statement

Y/E March	2019	2020	2021	2022	2023
CF from Operating activities (A)	1514	2570	5093	4207	1267
CF from Investing Activities (B)	-896	-649	-2595	-4872	2691
CF from Financing Activities (C)	-663	-1061	-1076	-1078	-1313
Net Cash Flow	-45	861	1422	-1742	2645
Add: Opening Bal.	-1895	-1940	-1079	343	-1399
Closing Balance	-1940	-1079	343	-1399	1246

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
8 th June 2023	Buy	138

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Name of the Research Analyst: Deepanshu Jain

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3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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