

## Performance impacted by supply chain disruptions...

**About the stock:** Bharat Electronics (BEL) is 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, home land security, civilian products, etc.
- Focus to raise non-defence share to ~20% to 25% over two to three years

**Q1FY22 Results:** BEL reported subdued Q1FY22 results amid supply disruptions.

- Revenue at ₹ 1634.6 crore, down 2.2% YoY amid pandemic restriction
- EBITDA came in at ₹ 62.9 crore, down 57.1% YoY, due to lesser revenue booking and supply chain disruptions.
- Consequently, PAT came in at ₹ 11.2 crore, down 79.4% YoY
- Order inflows for Q1FY22 came in at ~₹ 2619 crore, down ~23.4% YoY

**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 ₹ 205 i.e. 19x P/E on FY23E 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 inflow guidance of ₹ 15000 to ₹ 17000 crore for FY22E
- We expect revenue, EBITDA to grow at CAGR of ~13.9%, 10.3% in FY21-23E aided by sustained margins in the range of 20-22%
- Strong balance sheet, double digit returns ratios

**Alternate Stock Idea:** We also like Siemens Ltd in our coverage.

- Further penetration of value added automation and digitisation products & services across segments to drive margins, long term growth
- BUY with a target price of ₹ 2390



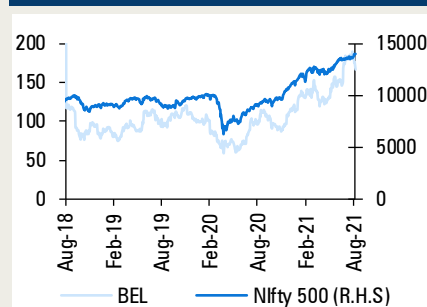
### Particulars

Particular	Amount
Market Capitalization	₹ 41422 Crore
Total Debt (FY21)	₹ 49.3 Crore
Cash and Inv (FY21)	₹ 2551.5 crore
EV (FY21)	₹ 38920 Crore
52 week H/L (₹) (BSE)	192 / 86
Equity capital	₹ 243.7 Crore
Face value	₹ 1

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	51.1	51.1	51.1	51.1
FII	9.6	10.3	11.6	14.1
DII	31.6	31.3	30.2	28.9
Others	7.7	7.3	7.1	5.9

### 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)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues	12,085	12,921	14,064	14.1%	16,298	18,245	13.9
EBITDA	2,862	2,730	3,181	16.8%	3,418	3,867	10.3
EBITDA margin (%)	23.7	21.1	22.6		21.0	21.2	
Net Profit	1,927	1,794	2,065	8.8%	2,324	2,637.1	13.0
EPS (₹)	7.9	7.4	8.5		9.5	10.8	
P/E (x)	21.5	23.1	20.1		17.8	15.7	
EV/EBITDA (x)	14.2	14.6	12.2		11.3	9.9	
RoCE (%)	30.0	25.1	27.1		26.7	27.7	
RoE (%)	21.4	18.2	19.1		19.7	20.5	

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Subdued performance, margins impacted...

- Energy segment: The company reported revenues at ₹ 1634.6 crore, declining 2.2% YoY, (vs. I-direct estimate of ₹ 2412 crore), impacted by supply chain disruptions amid second wave of pandemic
- Absolute EBITDA came in at ₹ 62.9 crore (way below our estimate of ₹ 390.4 crore), down 57.1% YoY. While EBITDA margin came in subdued at 3.8% (vs. our estimate of 16.2%) declining ~500 bps YoY, owing to lesser revenue booking amid supply chain disruptions
- Consequently, PAT came in at ₹ 11.2 crore, down 79.4%, primarily due to lesser execution, declining margins amid pandemic challenges. However, other income grew 142.8% to ₹ 44.7 crore on a YoY basis
- Overall, BEL's order book was at ₹ 54489 crore as on June 30, 2021. Order inflow for Q1FY22 came in at ₹ 2619 crore (vs. ₹ 3420 crore in Q1FY21)

### Q1FY22 Earnings Conference Call highlights

- BEL is aiming at order inflows of ~ ₹ 16000-17000 crore for FY22E. It expects orders in the range of ₹ 4000-5000 crore from Army, ₹ 3000-4000 crore from Naval, ₹ 8000-10000 crore from Air Force and ~₹ 3000-4000 crore from non-defence segment. The programmes include Akash missile systems two regiments, electronic warfare systems, QRSAM, etc
- Focus on retaining only R&D and IT part and outsourcing other requirement to reduce manpower cost from ~16% to 12 to 13% over two to three years
- Going ahead, a further pick-up in execution and a favourable product mix would help BEL stabilise base EBITDA margins in the ~20-22% range
- BEL aims to diversify into non-defence areas that now contribute ~10% of order book and ~7% of revenues as of now. The revenue contribution is expected to increase to 20-25% over the next two to three years
- BEL is in talks with Ola for manufacturing Li-on battery packs. It will make an investment of ₹ 500-1000 crore, initially
- On non-defence side, foray into Metro (communication based doors, auto fair collection system, traffic control system), healthcare (ventilators, oxygen concentrators, dialysis machines), EVM/VVPAT machines, electric chargers for EV, homeland security, smart cities, etc
- BEL being a zero debt company is able to maintain its working capital through internal accruals

**Exhibit 1: Variance Analysis**

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Operating Income	1,634.6	2,412.2	1,670.6	-2.2	6,908	-76.3	Subdued performance due to supply chain disruptions amid lockdowns
Other income	44.7	22.0	18.4	142.8	57	-21.9	
Total Revenue	1,679.3	2,434.2	1,689.0	-0.6	6,965.5	-75.9	
Raw materials costs	954.7	1,236.2	823.5	15.9	4,069	-76.5	
Employees Expenses	495.0	556.7	511.7	-3.3	478	3.5	
Other Expenses	122.0	228.8	188.8	-35.3	390	-68.7	
Total Expenditure	1,571.7	2,021.7	1,523.9	3.1	4,938	-68.2	
EBITDA	62.9	390.4	146.7	-57.1	1,970.6	-96.8	
EBITDA margins (%)	3.8	16.2	8.8	-493 bps	28.5	-2468 bps	Dismal margins due to lesser revenue booking
Interest	0.1	1.0	0.1		5.6		
Depreciation	92.2	94.0	88.8	3.9	91.7	0.6	
Tax	4.0	92.1	22.1	-81.8	578.2	-99.3	
PAT	11.2	225.4	54.1	-79.4	1,352.4	-99.2	

Source: Company, ICICI Direct Research

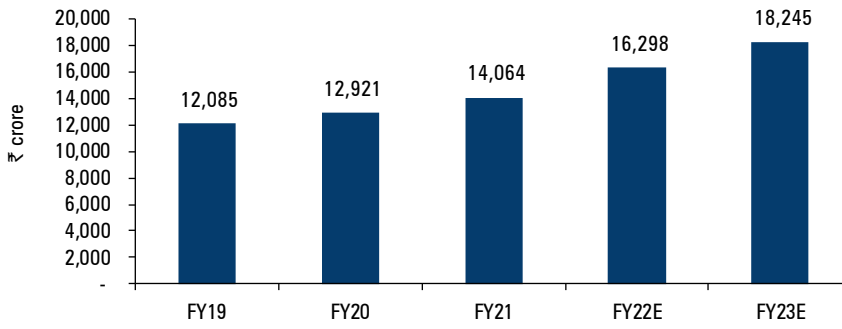
**Exhibit 2: Change in estimates**

(₹ Crore)	FY20	FY21	FY22E			FY23E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	12,921	14,064	16,298	16,298	0.0	18,245	18,245	0.0
EBITDA	2,730	3,181	3,418	3,418	0.0	3,867	3,867	0.0
EBITDA Margin (%)	21.1	22.6	21.0	21.0	-3 bps	21.2	21.2	-1 bps
PAT	1,794	2,065	2,324	2,324	0.0	2,637	2,637	0.0
EPS (₹)	7.4	8.5	9.5	9.5	0.4	10.8	10.8	0.2

Source: Company, ICICI Direct Research

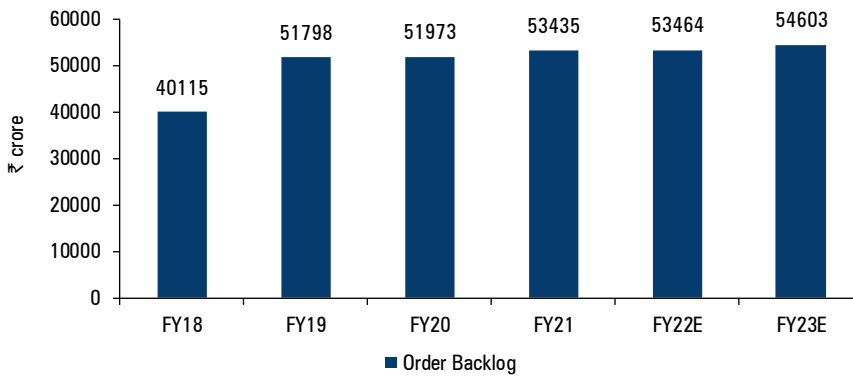
### Financial story in charts

Exhibit 3: Revenue trend



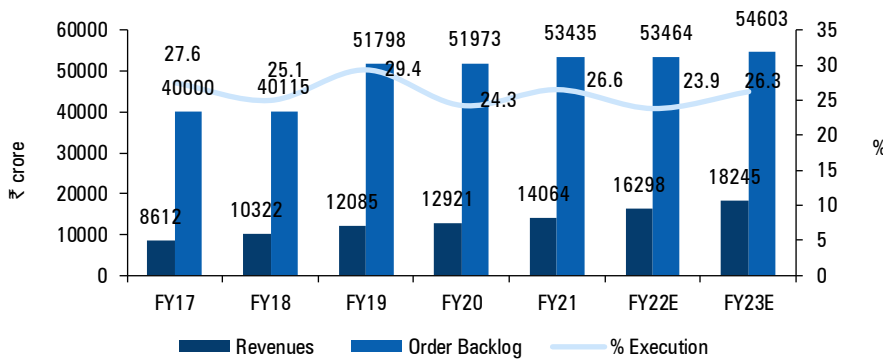
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



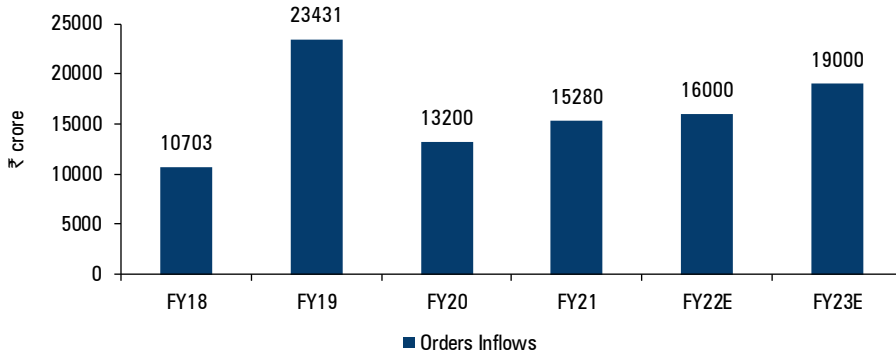
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



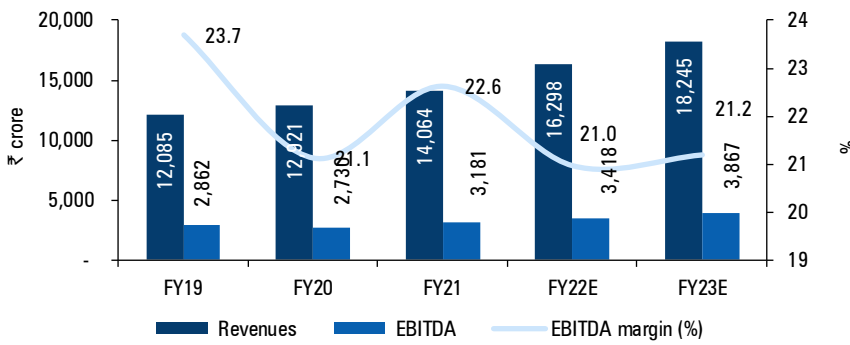
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



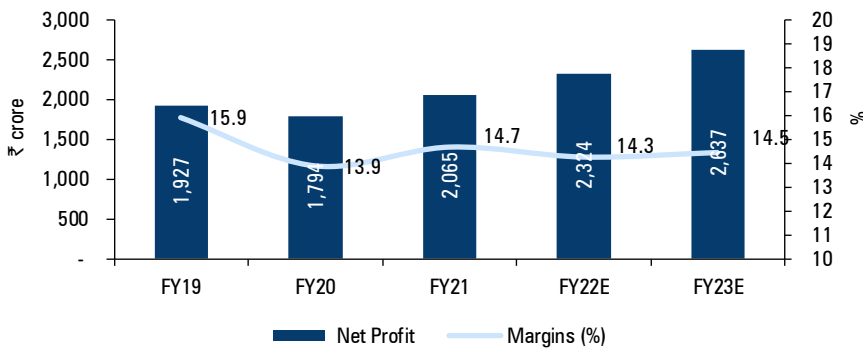
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



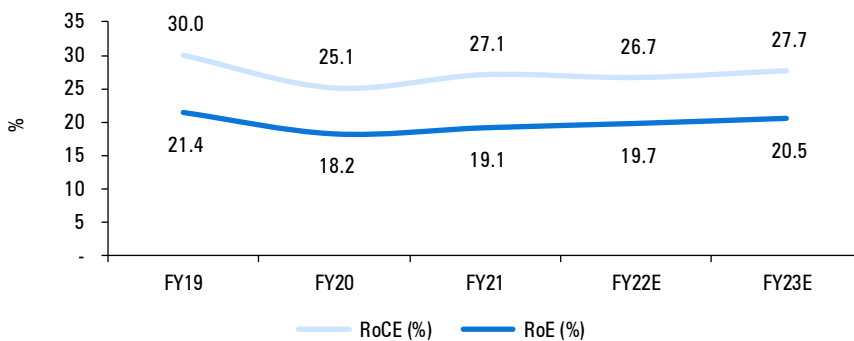
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	12,608	13,818	15,971	17,861
Other operating income	313	246	327	384
Revenue	12,921	14,064	16,298	18,245
% Growth		8.8	15.9	11.9
Other income	101.9	126.1	160.0	178.0
Total Revenue	13,023	14,199	16,298	18,245
% Growth		9.0	14.8	11.9
Total Raw Material Costs	7,105	7,828	9,231	10,377
Employee Expenses	2,058	1,941	2,132	2,304
other expenses	1,028	1,114	1,517	1,697
Total Operating Expenditure	10,191	10,883	12,881	14,378
Operating Profit (EBITDA)	2,730	3,181	3,418	3,867
% Growth		16.5	7.4	13.1
Interest	3	6	5	5
PBDT	2,829	3,301	3,573	4,040
Depreciation	350	366	432	476
PBT before Exceptional Items	2,479	2,935	3,141	3,564
Total Tax	685	869	817	927
PAT before MI	1,794	2,065	2,324	2,637
Minority Interest	-	-	-	-
PAT	1,794	2,065	2,324	2,637
% Growth		15.1	12.5	13.5
EPS	7.4	8.5	9.5	10.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21P	FY22E	FY23E
Equity Capital	243.7	243.7	243.7	243.7
Reserve and Surplus	9,609	10,564	11,527	12,619
Total Shareholders funds	9,853	10,808	11,770	12,862
Other Non Current Liabilities	1.3	1.3	1.3	1.3
Total Debt	49	49	31	31
Total Liabilities	9,972	10,927	11,871	12,963
Gross Block	2,985	4,057	4,893	5,543
Acc: Depreciation	1,268	1,634	2,066	2,542
Net Block	2,497	2,423	2,827	3,001
Capital WIP	683	736	600	700
Total Fixed Assets	3,202	3,182	3,450	3,724
Non Current Assets	2,061	2,256	2,256	2,256
Inventory	3,963	4,955	5,224	5,498
Debtors	6,733	7,320	8,395	9,197
Loans and Advances	1,409	1,700	1,700	1,700
Other Current Assets	4,675	6,007	6,096	6,112
Cash	1,556	2,552	2,905	3,118
Total Current Assets	18,646	22,862	24,649	25,956
Current Liabilities	2,567	2,785	3,215	3,499
Provisions	1,476	1,593	1,726	1,872
Total Current Liabilities	13,939	17,374	18,485	18,974
Net Current Assets	4,707	5,488	6,164	6,982
Total Assets	9,972	10,927	11,871	12,963

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21P	FY22E	FY23E
Profit after Tax	1,794	2,065	2,324	2,637
Depreciation	350	366	432	476
Interest	3	6	5	5
Cash Flow before WC changes	2,147	2,438	2,761	3,118
Changes in inventory	492	(992)	(270)	(274)
Changes in debtors	(1,364)	(587)	(1,075)	(803)
Changes in loans & Advances	178	(291)	-	-
Changes in other current assets	(1,408)	(1,331)	(89)	(17)
Net Increase in Current Assets	(2,130)	(3,221)	(1,434)	(1,093)
Changes in creditors	994	218	430	284
Changes in provisions	96	117	134	146
Net Inc in Current Liabilities	2,591	3,435	1,111	488
Net CF from Operating activities	2,608	2,652	2,439	2,513
Changes in deferred tax assets	(26)	34	-	-
(Purchase)/Sale of Fixed Assets	(746)	(346)	(700)	(750)
Net CF from Investing activities	(829)	(540)	(700)	(750)
Dividend and Dividend Tax	(910)	(1,169)	(1,315)	(1,492)
Net CF from Financing Activities	(944)	(1,117)	(1,385)	(1,550)
Net Cash flow	834	995	354	213
Opening Cash/Cash Equivalent	722	1,556	2,552	2,905
Closing Cash/ Cash Equivalent	1,556	2,552	2,905	3,118

\*calculated, Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	7.4	8.5	9.5	10.8
Cash per Share	6.4	10.5	11.9	12.8
BV	40.4	44.4	48.3	52.8
Dividend per share	3.1	4.0	4.5	5.1
Dividend payout ratio	0.4	0.5	0.5	0.5
EBITDA Margin	21.1	22.6	21.0	21.2
PAT Margin	14.2	14.9	14.6	14.8
RoE	18.2	19.1	19.7	20.5
RoCE	25.1	27.1	26.7	27.7
RoC	28.5	33.9	33.6	34.7
EV / EBITDA	14.6	12.2	11.3	9.9
P/E	23.1	20.1	17.8	15.7
EV / Net Sales	3.1	2.8	2.4	2.1
Sales / Equity	1.3	1.3	1.4	1.4
Market Cap / Sales	3.2	2.9	2.5	2.3
Price to Book Value	4.2	3.8	3.5	3.2
Asset turnover	1.3	1.3	1.4	1.4
Debtors Turnover Ratio	2.1	2.0	2.1	2.1
Creditors Turnover Ratio	6.2	5.3	5.4	5.4
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	3.8	3.7	3.6
Quick Ratio	2.7	2.9	2.8	2.7

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		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1595	1,870	Buy	223810	81.9	46.7	52.9	19.5	34.2	30.1	7.4	8.0	8.8	18.8	10.2	11.0
AIA Engineering (AIAENG)	1963	2,275	Buy	18515	60.0	58.7	71.0	32.7	33.4	27.7	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1360	1,680	Buy	16205	17.3	26.8	40.0	78.4	50.7	34.0	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	452	550	Buy	6993	41.3	33.9	42.0	10.9	13.3	10.8	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	414	485	Buy	10644	21.5	23.3	32.2	19.3	17.7	12.8	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	160	210	Buy	3699	0.4	4.7	6.5	357.1	33.7	24.4	6.5	16.5	21.9	3.3	12.0	16.0
Elgi Equipment (ELGEQU)	204	260	Buy	6465	3.2	3.9	6.2	63.1	52.0	33.1	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	171	205	Buy	41666	8.5	9.5	10.8	20.2	17.9	15.8	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCSHI)	372	500	Buy	5089	46.4	44.0	55.6	8.0	8.5	6.7	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2885	3,300	Buy	14100	60.2	72.0	94.0	47.9	40.1	30.7	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1500	1,235	Hold	11729	19.0	31.2	35.3	78.8	48.1	42.5	15.4	19.4	21.9	11.9	14.8	16.8
NRB Bearing (NRBBEA)	132	175	Buy	1466	5.6	8.0	9.8	23.6	16.5	13.5	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	237	300	Buy	2894	7.1	9.4	13.7	33.4	25.2	17.3	26.9	25.8	30.7	15.3	17.1	20.3

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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