भारत इलेक्ट्रॉनिक्स
BHARAT ELECTRONICS
भारत इलेक्ट्रॉनिक्स लिमिटेड
(भारत सरकार का उद्यम, रक्षा मंत्रालय)
पंजीकृत कार्यालय :
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सं.No. 17565/6/SE/NSEC/SEC
दिनांक/ Date: 24.05.2024

महोदय / महोदया
Dear Sir/Madam,

विषय – दिनांक 22.05.2024 को निवेशकों /विश्लेषकों के साथ हुए कॉन्फ्रेंस कॉल की प्रतिलिपि।
Sub: Transcript of the Conference Call with Investors/Analysts held on 22.05.2024.

सेबी (एलओडीआर) विनियम, 2015 के विनियम 30 और 46 के अनुसार, कृपया बुधवार, 22 मई, 2024 को सुबह 10:00 बजे आईसीआईसीआई सिक्योरिटीज लिमिटेड द्वारा आयोजित कॉन्फ्रेन्स कॉल की प्रतिलिपि 31 मार्च, 2024 को समाप्त तिमाही और वार्षिक लेखा परीक्षित वित्तीय परिणामों पर चर्चा के लिए लिए संलग्न पाएं।
Pursuant to Regulation 30 and 46 of SEBI (LODR) Regulations, 2015, please find enclosed herewith the transcript of the conference call hosted by ICICI Securities Limited on Wednesday, 22nd May, 2024 at 10:00 A.M. for discussion on Audited Financial Results for the quarter and year ended 31st March, 2024.

आपके सूचनार्थ उपर्युक्त प्रतिलिपि कंपनी की वेबसाइट www.bel-india.in पर निवेशक-स्टॉक एक्सचेंज डिस्क्लोज़र टैब के अंतर्गत भी उपलब्ध है।
For your kind information, the aforementioned transcript is made available on the website of the Company www.bel-india.in under Investors – Stock Exchange Disclosure tab.

सूचना व अभिलेख हेतु प्रस्तुत है।
Submitted for your information and record.

सधन्यवाद / Thanking you,

भवदीय/Yours faithfully,
कृते भारत इलेक्ट्रॉनिक्स लिमिटेड
For Bharat Electronics Limited

SREENIVAS SRIPADA
Digitally signed by SREENIVAS SRIPADA
Date: 2024.05.24 17:59:26 +05'30'

एस श्रीनिवास/S Sreenivas
कंपनी सचिव/Company Secretary

संलग्न- यथा उपरोक्त । /Encls: As stated Above.

"Bharat Electronics Limited

Q4 FY'24 Earnings Conference Call"

May 22, 2024

MANAGEMENT:	**MR. BHANU PRAKASH SRIVASTAVA – CHAIRMAN AND MANAGING DIRECTOR – BHARAT ELECTRONICS LIMITED** **MR. DAMODAR BHATTAD – DIRECTOR FINANCE AND CHIEF FINANCIAL OFFICER – BHARAT ELECTRONICS LIMITED** **MR. SREENIVAS S – COMPANY SECRETARY – BHARAT ELECTRONICS LIMITED**
MODERATOR:	**MR. AMIT DIXIT – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Bharat Electronics Limited Q4 FY '24 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note, the conference is being recorded. I now hand the conference over to Mr. Amit Dixit. Thank you, and over to you, sir.

Amit Dixit: Yes. Thanks, Steve. Good morning, everyone. On behalf of ICICI Securities, I welcome all the participants for Bharat Electronics Limited Q4 FY '24 Earnings Conference Call. At the outset, I would like to thank the management for giving us an opportunity to host this call.

From the management, we have with us today Mr. Bhanu Prakash Srivastava, Chairman and Managing Director; Mr. Damodar Bhattad S., Director, Finance and CFO; and Mr. Sreenivas S., Company Secretary. We will begin the call with opening remarks from the management, and then we will open the floor for an interactive Q&A. Without much ado, I would hand over the call to Mr. Srivastava to take this forward. Thanks, and over to you, sir.

Bhanu Srivastava: Good morning to all of you. Bharat Electronics has done a reasonably good performance in Q4. And if you see that overall in the year '23-'24. Yearly, if you see, our turnover has increased to INR19,819.93 crores, which is a growth of 14.35% as compared to previous year's turnover of INR17,333 crores. PBT increased to INR5,335 crores, which is a growth of 33.87%. EBITDA has increased to 25.22% as compared to 23.35% previous year. PAT increased to INR4,020 crores as compared to INR3,007 crores in the previous year with a growth of 33.68%.

Earnings per share has been INR5.5 as compared to INR4.11 previous year. And we had acquired the highest ever order book -- order in financial year, that is INR35,000 crores, which amounts to order book as on 1st April '24 is INR75,934. So it has been a reasonably good performance despite the challenges we faced in global supply chain.

When we gave the guidance in April, this financial year -- previous financial year, we gave that turnover of growth of around 15% to 17% and the EBITDA in the range of 21% to 23%, and order is in the range of INR20,000 crores plus. However, at that time, we did not take into account that Israel, that Hamas war, which came as a surprise to us in October and which did have an impact on our turnover and even flow. That's why you see that the impact which happened in Q2 and Q3, we were able to overcome with our effective management of this new situation. And that's how Q4, to a large extent, we were able to recover from that impact of Israel war, and we achieved a turnover in the range what we gave the guidance is April.

Overall, it has been a good year, and we see an even better year, next financial year. Thank you very much.

Moderator: Should we start the Q&A?

Amit Dixit: Yes, yes, of course, Steve, start it. Yes.

Moderator: Thank you very much. The first question is from the line of Amit Mahawar. Please go ahead.

Amit Mahawar: Congratulations on great year across line items. For FY '25, we have a lot of contracts, which have already been part of FY '24. So you'll expect around what kind of order intake in '25? And if you can have the help in the bottom-up data for the same? That's first. And apart from that, revenue and margin guidance?

Bhanu Srivastava: We expecting order acquisition in the range of around INR25,000 crores in '24-'25. That will -- that we are not factoring order for QRSAM because still, services are in the process of taking acceptance of necessity, for which whatever inputs are required, we are giving to them. So because it's being a big value order, we expect that it may to lever to '25-'26. So without QRSAM or this, we are expecting order acquisition in the range of around INR25,000 crores in '24-'25. Revenue, we are targeting a growth of double-digit growth of around 15% and EBITDA in the range of 23% to 25% this year.

Amit Mahawar: Second point on incrementally in terms of exports, any large Tier 1 platforms this year and next year you're targeting?

Bhanu Srivastava: Export if you see that we have done around $92 million, so almost double of what we did the previous year. Our export order book is around $400 million, and we are expecting another $200 million-plus order from our export market. And we are targeting a turnover of around $110 million this year.

Amit Mahawar: Third and last question is on the import content, sir. FY '25-'26, what is the target reduction in imports? And yes, that's it.

Bhanu Srivastava: Import content, if you see, it depends upon the product mix. So if it is an indigenous content product, which is either designed by BEL or in collaboration with DRDO, so their import content will be in the range of around 30%, 35% because all components, modules, normally still, we are dependent on imports. So basic, that 30% import content will be there.

Whereas you see growth for our collaborative partners, where we tie up with foreign sources. There, as per work share arrangement for each product, normally, it varies anywhere between 60% import -- 40% import. If you see the value wise, government also wants around 60% indigenous content. So in that range. But it varies from contract to contract based on mutually agreed work share arrangement.

Moderator: Thank you. The next question is from the line of Deepak Krishnan from Kotak Institutional Equities.

Deepak Krishnan: Just wanted to understand factors that led to such strong gross margin performance this quarter. How sustainable is it? And we sort of indicated that EBITDA margins will be 23% to 25%, which is higher than what you initially have guided last year. So what are the factors which are driving that? Maybe I just follow up after that on another question.

Bhanu Srivastava: Yes the major reason were that composition of the product mix, which has happened during the current year. There are around 300 products, which we are selling, around 300 products. So the composition of those products that, I mean, this year led to a gross margin of 45%, around 45%. Going forward, as we guided, it will be an EBITDA margin of 23% to 25%.

Deepak Krishnan: Sure, sir. Maybe what was the nondefense mix, sir? If you can kind of highlight that and how do you look at it going ahead?

Bhanu Srivastava: Non-defense mix? See, the nondefense mix, if you see that last year, we had a major play of EVM of around INR1,000 crores. So this year, that value will be less. But we are targeting other products in nondefense market. Maybe we are trying to bring that AT&S, airport surveillance radar, some Metro products like platform screen doors. So that will be largely compensating whatever will be reduction in EVM. So percentage-wise, it may remain roughly in the range of around 15% of the total revenue, nondefense.

Deepak Krishnan: Okay, sir. And maybe just want to understand in terms of overall contract order book, how much is fixed price? How much is variable price contracts? Any other levers that we have in terms of to kind of expand margins for that?

Bhanu Srivastava: Most of our products are fixed-price contracts only, most of our contracts -- fixed price contracts, but most of them have an ERV class exchange rate variation class is there in almost all the contracts.

Deepak Krishnan: Those are my question. I will get back to the question queue.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Good morning team and congratulations for the strong performance. I'm sorry I missed a couple of minutes of opening remarks in case if I repeat my question. Firstly, I wanted to understand a bit more in terms of how the revenue mix for fiscal '24 has been between defense, non defense and also services portfolio. And given the fact that fiscal '24 has seen very strong order inflows, most of it seems to be short cycle except for the fuses. What percentage of the backlog you think should be executable in the next 2 years?

Bhanu Srivastava: As far as defense, nondefense it has been around -- 81% is defense if you see the previous year 4% is [inaudible 11:09] and 15% is nondefense. And if you see that goods and services composition 90% has been in sale of goods and 10% is the sale of services. So that has been composition of previous year.

As far as this year's composition I presume that this will be in the same range because whatever will be reduction from EVMs, it will be compensated from some new what you say that areas like airport authority and platform screen door and some of the Metro products so will be in the more or less same range.

As far as product cycle INR75,000 crores if you see the total. Yes. fuses are for 10-year contracts, but all others are executable in anywhere between 2 years to 5 years because the products which are especially related with naval business and which goes in ships and submarines there it split from 2 years to 5 years. So based on all this composition only when we give the target for next year we take into all these considerations. And then we say that next year, we are targeting around 15% growth. That's the opportunity we have for execution.

Renu Baid: Secondly, on order inflow or the order pipeline. Earlier, you had given a broad range that over the next 2-year bucket, we should be having at least INR50,000 crores of inflows, but if we look at the pipeline in terms of large projects, can you help us outline which would be the large ticket size projects which could see finalization over the next 12 months, 18 months? And to the base case number of INR50,000 crores, what incremental short-cycle orders can come to drive similar upside the way we have had in fiscal '24?

Bhanu Srivastava: See, if you see the large-size projects which are underway, one is the QRSAM which is the biggest order and that will be anywhere in the range of INR30,000 crores plus, if we add both Army and Air Force requirement, but since it is only in the A1 stage where they are collecting data input and then they will make a statement of case it will go for AUM and after that RFP, RFP quotations and P&C and order processing. So the way this goes we expect this to materialize only in '25-'26 unless government becomes very fast and aggressive and do it out of the way.

So it all depends upon how government process it. But keeping aside this large contract of QRSAM what are the pipelines because our product spread is very large. So when we are monitoring around more than 70 type of line items or items are in pipelines which are more than INR100 crores and are in the range of INR100 crores, INR200 crores, INR500 crores, INR600, crores, INR1,000 crores, INR1,200 crores spread across. So if we add that and see a reasonable level of success in this financial year for order acquisition we see the figure of around INR25,000 crores.

Renu Baid: Sure. Got it. And lastly, can you also share on the order backlog that we have today, INR750 billion. Some of the marquee projects that we're executing, Akash, LRSAM maybe in the last leg of [inaudible 15:00]

Bhanu Srivastava: Akash, LRSAM. Himshakti is there.

Renu Baid: Himshakti. What was the value of these projects in the backlog for us?

Bhanu Srivastava: Himshakti project is around INR2,500 crores, INR2,527 crores. Akash Army is INR3,500 crores. LRSAM left out is INR5,600 crores, but this year we are targeting around INR3,200 crores. MPR Arudhra is INR2,400 crores. This year because we have to give [15:27 inaudible], the value may not be very high, around INR400 crores, INR500 crores. Shakti EW system, IAC. So many big projects are there. ADC&RS there Air Defence Control & Reporting System around INR1,967 crores.

We may be doing around INR1,000 crores-plus this. So these are all projects, bigger projects which are spread across next 2 years, 3 years. So depending upon what is the execution plan we plan this year and then balance goes to next and next to next year.

Renu Baid: Got it. That’s pretty helpful I have couple of more questions I will come back in the queue. I don’t want to take too much time. Thank you all the best sir.

Moderator: Thank you. The next question is from the line of Deepesh Agarwal from UTI Asset Management. Please go ahead.

Deepesh Agarwal: Sir, my first question is, if I see the cash flow it seems there is a significant increase in the provision for warranty liquidated damages and bad debt almost INR500 crores, INR600 crores kind of a movement. What has led to increase in provisioning and would we expect a reversal in the future of the same?

Bhanu Srivastava: See, provisioning is made in accordance with the contract conditions. So as soon as we cross the contract date and we don't see the delivery date amendment from the customer we need to make the provisions. This provisioning may get reversed or not we will be taking up with the customer in many of the contracts, but it will depend on the outcomes which may happen in next year and next to next year.

So provisioning is based on the contract base, that's how the provisions are raised. Some of the projects have across the provisioning the contractual delivery dates, that has led to the higher provision in the current year, but nonetheless we continue to engage with customers and there are good probability that some of them will get reversed.

Deepesh Agarwal: Okay. So this kind of provisioning will recur for the next year or next year we should see a normalized provisioning and not these elevated provisioning?

Bhanu Srivastava: See, what has crossed the delivery date -- some of the contracts on the order book of INR76,000 crores what has crossed the delivery days will obviously remain again in the provision zone unless we are able to get in touch with the customer and get the delivery date amendment. So that will continue.

But some other or it may not be -- I cannot take the precise figure how much it will be, but definitely, what has crossed it will be there. We cannot tell you a little bit INR500 crores or INR200 crores that number we will not be able to tell because in the new contract this problem will not be there. Actually in many of the projects if you see these are very complex projects. And they have got a lot of dependency, a lot of scope modification based on the site condition, based on the project progression, based on the conditions of that.

So there, we are very confident that customers do consider it and then gives the DD extension without LD, but then amending that contract because it has to go to original approving authority and big value contract original approving in 38 will be at very higher level. So it involves a lot of time and sometimes it may even go more than 1 years or 2 years. So as per laws we have to do the provision and as and when that we get the DD extension without DD we withdraw. So it continues some provisions are withdrawn, some are added.

Deepesh Agarwal: Sir, secondly in the past calls you have highlighted the Israel conflict having some issue on our supply chain leading to revenue deferment. What is the status currently?

Bhanu Srivastava: See there has been a significant improvement because that our OEMs in Israel they found methodology or methods to effect the shipment though it takes a little bit more time than in normal course. So yes, the initial impact was high, that's what in opening remarks also I told that Q2 and Q3 did have a significant impact.

But a large portion of that we were able to recover in Q4. Now there are impacts, but we are trying to minimize, but I cannot say that there is no impact of Israel war. There are component supplies from Israel. There are sub modules supplies from Israel OEMs. They in turn they have to source it from foreign OEM processes and area being discussed it does have an impact. So we are trying to take care of it.

Deepesh Agarwal: Sure. And sir lastly so it seems HAL will be scaling up the LCA production from this year. So how does it benefit the BEL? What would be typically BEL share in...

Bhanu Srivastava: I will tell you. See you see that LCA avionics is from our side BEL side. So digital side -- critical avionics like Digital Flight Control Computer, DFCC; then Pylon Interface Box which interfaces the weapons with the platform. These are then analogues that ADC that controller, these two, three products are from our side.

So you see that 83 LCAs, our contribution may be around INR2,000 crores and remaining 97 for which A1 has been granted. We have given quotation in the range of INR2,500 crores only in avionics portion. So that is our contribution. So if they scale up, we scale up our production for the avionics product and supply to them.

Deepesh Agarwal: And this is excluding AESA radar?

Bhanu Srivastava: Yes. This is excluding AESA. It's only avionics portion that's what I'm telling. Three products, I already told you, DFCC, PIB and ADC air data computer. So these are the three contribute to avionics portion of the LCA.

Deepesh Agarwal: Okay. Thank you and all the best.

Bhanu Srivastava: Thank you.

Moderator: Thank you. The next question is from the line of Umesh Raut from Nomura. Please go ahead.

Umesh Raut: Congrats for the good set of numbers. Sir, my first question is more of a follow-up on Deepesh's question which is related to provisioning. So if I look at Q4 quarter we have other expenses closer to about INR1,200 crores about 68% year-on-year jump. So was there any higher provisioning in Q4 and what that number would be?

Bhanu Srivastava: I think provisioning what you do major is around INR230 crores -- INR220 crores which relates to one of our projects called Integrated Air Command and Control System where delivery date got extended, but it's a very complex project which involved majority of the dependency on the customer side also and change in this modification in the scope.

So because DD has just we have to provision it, but we are in the constant touch with the airport and they have formed Board of officers with our representative in that officers -- in that Board of officers who will go through all these dependencies and recommend their findings. So we are very confident that we will be able to get the extension.

But the process is long because it's a big project. So their approval process also and approving authority also is at a similar level in MoD. So it has to go through all the levels and then it happens. So contractually we had to make the provisions, but we're working on that.

Umesh Raut: Got it, sir. So if I exclude that amount then our other expenses would have been in the range of closer to INR950 crores for the quarter?

Bhanu Srivastava: INR230 crores is definitely [inaudible 23:15] project it is made. So other than that is others, yes.

Umesh Raut: Got it, sir. Thank you for that understanding. Sir, my second question is on the capex front. If I look at our capacity expansion. So first of all how much at a blended level we have capacity utilization at this point of time? And what are our plans in terms of new capacity expansion as well and is there any plan to get into new product like electronic SKUs in the future?

Bhanu Srivastava: See, your question is in three parts. One is the capacity utilization. So, see our is not like a single product where you keep on doing that. These are all strategic capacities built and we produce the products and if any routine type of capacity is not available with us we outsource it and we do the critical manufacturing in-house.

So the capacity available in the market and capacity within factory within BEL we are able to meet their customer's requirement. But nonetheless we keep on working on building new capacity to take care of future requirements with the growing order book. So if you see that we are building around five new factories.

So one advanced night vision factory at Nimmaluru is ready and it is ready for inauguration by relevant authorities that is around 50 acres of land and its expenditure of INR300 crores plus and another facility we are building in Ibrahimpatnam in Andhra or Telangana where Ibrahimpatnam is near Hyderabad.

So there, we are building that facility for EW systems for land at around INR200 crores investment we are doing. This will come up maybe by next year. Third facility we are doing a weapon system and integration -- defense system integration in Palasamudram. It's a big facility with 930 acres of land for all missile system integration and other defense integration. That also work has started in another 2 years this should be operational.

We are also working on building a facility for fuse complex and explosives at Nagpur with around 200 acres of land. That should be operational in another 2 years to 3 years. We are working on that. We have a land of around 30 acres in Davanagere where we are going to build the manufacturing facility for airborne equipment in EW system. We have the facility. We are in this process of approval of capex.

And we are also working with the UP government. We have requested them. We have signed an MoU. And they have committed around 175 acres of land near that defense corridor in Agra where we will be setting up MRO facility for missile systems including QRSAM plus part of manufacturing of these missile systems will be done there.

So these are the investments. In average around INR600 crores to INR700 crores per year we are investing for building new capacity and upgrading our existing facilities also like super component facility in Ghaziabad, we are upgrading to latest that whatever technological requirements. We are building a super component facility in Hyderabad unit existing with investment of around INR130 crores for present at AESA based radar manufacturing. So these are the capex which we are doing. So every year, INR600 crores to INR700 crores, we are pumping in for capex.

Umesh Raut: Got it, sir. my last question is related to new orders. So as we are saying Indian Navy is finalizing two major contracts: one on the submarine side; and second on the next-generation corvettes side. So what kind of systems we are planning to supply over there? So basically, a repeat order of submarine and then next-generation corvettes? And secondly, on the India Air Force side, because there is also a large pipeline for combat helicopters and utility helicopters, so what kind of equipment we can supply for those programs as well?

Bhanu Srivastava: See, if you see that next-generation corvettes. There are almost around 10 to 12 equipments which BEL is supplying on both P15B the destroyer and this frigates P17 alpha. This involves sonar system, communication system, ship data network, combat management system, EW system, radar systems and SAM surface-to-air-missile all this.

So all these equipments which we have been supplying we find that there is no reason that NBC also -- it should not be there. So NBC also involves this type of equipment from BEL side. Coming to submarine side there are two aspects: one is that P-75 additional submarine which will go with the AIP and there the foreign partners will be there. There, it is either L&T or MDL two 2 Indian shipyards with foreign partners. They are in the frame one of them will subject.

So we are working with both of them to what extent indigenization can be done and we can do indigenous manufacturing. P-75(I) again the submarine we have a majority of the equipment in-house because it's the indigenous manufacturing. So it all involves sonar systems, communication systems and -- related to many, many equipment combat management system or combat information system. So these are the equipments which goes in this submarine.

So it depends. If it is a totally indigenously P-75(I) programs our share will be much more. If it is with the foreign OEM then we have to negotiate with them to what extent indigenous content will be there in line with Government of India's Aatma Nirbhar policy. So this is still in discussion stage. We have given certain pricing. MoD has got certain and Navy has got certain observation of that. So along with shipyards and OEM we are working on that.

Umesh Raut: Got it, sir. Sir, if I look at historical trend we have received closer to 25% of contract value as a part of derivative orders from these larger projects. So is it fair to assume with the higher localization opportunities in future that percentage can go up closer to 30%, 35%?

Bhanu Srivastava: It should go. That's what we also anticipate.

Moderator: The next question is from the line of Gagan Thareja from ASK Investments.

Gagan Thareja: Sir, the first question pertains to the order inflow for FY '26. You indicated there is a very high chance that QRSAM will go into '26. But apart from QRSAM, on the other portions like radar, avionics, a pipeline of INR22,000 crores to INR25,000 crores also possible for FY '26?

Bhanu Srivastava: See, what I see when we review our all order acquisition plan. As I indicated earlier, '24-'25, we are looking around INR25,000 crores around minus QRSAM. Now '25-'26, if you see that QRSAM is there and another around INR15,000 crores to INR20,000 crores is in pipeline. Because hundreds of products are there. If there are 70 lines and each INR200 crores, so INR14,000 crores is like this only on an average, some INR100 crores, INR50 crores, INR200 crores, INR300 crores.

But these are short cycle-time projects. So for '25-'26, it becomes very difficult for us to specify all this what it will come. But this is how it comes because these are the projects, these are the products, these are the spares, these are the modules which are required to support the existing fleet also, existing products also, many spares, many modules, upgrades, additional features, additional things.

So there visibility is like 1 year only -- 1 year, 1.5 years. So this year, we have that clear visibility of around INR25,000 crores minus QRSAM. Next year, we have clear visibility of around INR10,000 crores, INR15,000 crores plus QRSAM. But then the more we reach closer to next year and the financial year, we'll see the much clearer visibility for these all small orders, which added together are significant.

Gagan Thareja: Understood. Also on the share of work for LCA, you indicated air data computer, [EFCC 0:032:44] and one more component. Could you -- would you not be doing -- would you not be doing anything related to the electronic warfare suite for LCA components like IFF for missile approach warning system and infrared search and track and...

Bhanu Srivastava: No, we are -- yes, we are working on that also, but there are something imported in current ones. We are working an indigenous one. And we are in the process of improving it. So it will also come. But see, unless there is a very good clarity, I would not like to add it and then create that hype.

Gagan Thareja: Completely understand, sir. We are just looking at what is potentially possible, not necessary that you have assurance of it. But since we're looking to localize any electronic warfare suite, I presume you will be doing the manufacturing for that?

Bhanu Srivastava: Yes, we are working on that, very sure. But see, unless there is something in concrete on the ground, normally, BEL is a bit conservative organization. So we don't project just on the hearsay, unless there is something and concrete on the ground, then we'll project. When we project, we stand by that we will get it.

Gagan Thareja: But what is the potential value of the electronic warfare suite in the aircraft itself? I'm not asking what BEL can get, but I'm looking at what's the value of the warfare suite?

Bhanu Srivastava: Still R&D project development and also what price the HAL has procured? I'm not aware. Maybe our team may be aware, but at this point of time, I don't have data.

Gagan Thareja: Okay. And would you be involved in the PICA system, the KAVACH system for the railways? Would you be working there as well? That's also an electronic component, right?

Bhanu Srivastava: Yes. See, there are, I think, two vendors or three vendors are just now for KAVACH. So even we are happy that we have also been one of our unit in Kotdwara. Recently, they got provisionally certified for KAVACH. So within 1 year or 18 months' time, I think, time, we have to submit that electronic equipment at KAVACH. So yes, we are in the fray for KAVACH also. More than for KAVACH, what have given to railway is that centralized intelligence KAVACH monitoring system. That is post Balasore -- that train accident, Railways wanted to integrate these and monitor that.

So having our strength in C4I, we have given this to railway that KAVACH integration system, which is pilot project is under operation. So that business opportunity also will come to us for integrating that KAVACH.

Moderator: The next question is from the line of Jonas Bhutta from Birla Mutual Funds.

Jonas Bhutta: Congratulations on a great set of numbers. Two quick questions. Firstly, sir, what we have seen is that increasingly, BEL is facing competition from the private sector in two domains, which were very core to it, which is basically radar systems and electro-optics. So in our guidance of to INR25,000 crores of order inflows, is there -- are there any projects where there is a multiplayer bid pending which the order gets confirmed? Or all of these are single vendor, though competitive, but still single vendor? And what are we doing to sort of regain the stronghold of ours in radars and electro-optics?

And combined with that, if you can talk about the RWR for the Su-30 that we were developing, what is the status on that? Because recently, I think HAL mentioned that they are very close to getting the contract to the Su-30 upgrade program. So are we involved in that? So that's the first question.

Bhanu Srivastava: See, competition is not new to BEL. Way back in 2004, when government brought Raksha Utpadan Ratna, RUR concept, from then onwards, we are facing competition in both radar system and electro-optics and other projects also. So it's not like every time we got the radar rather. You remember that NPR, we lost to L&T and Elta competition. And then a few more EDDS we lost to Tata. There are some projects, CMS, there was a competition, combat management system, there for indigenous aircraft carrier, we lost to Tata.

But later on, we regained and -- post we lost to Tata in 2011, all CMS programs we won, whether it is nominated, somewhere and somewhere competitive also. So you say that environment is there where this market is open and competition is there. We are fully geared up to face the competition and we had quite a bit of success.

What we have given is around the guidance of INR25,000 crores. It does contain certain amounts of competitive bids also. But then we have taken a sufficient, what you say, that factor when we say that INR25,000 crores range seeing the winning probability. So it's not like we have added everything and told you INR25,000 crores. We have added some factors considering that when you are in competitive bid, you may not win everything.

Jonas Bhutta: That's good. Sir, my -- sorry, on the RWA for Su-30, sir?

Bhanu Srivastava: RWR, I do not have detailed data as of now. Maybe I would like to target and pass it and tell you details sometimes later.

Jonas Bhutta: Sure. Sir, my second question was on this provisioning again. Sir, if I recollect, even 1 year, 1.5 years ago, I think we had provided for IACCS, I think, more or less the same amount, INR150 crores, INR180 crores. So in total, roughly INR400 crores is what we've provided for in a project which was relatively lower margin in the first place compared to our other businesses given that it had a very high component of civil construction. Do you believe that most 1/3 of the profit margin that was expected in this project has been now provided for? And is there a risk for further provisioning? And how many of the 10 nodes have commissioned?

Bhanu Srivastava: See, if you see that total project cost, it is INR8,000 crores for civil and electronic equipment supply, and INR2,000 crores AMC. INR8,000 crores, if you see, roughly INR5,000 crores in the civil and INR3,000 crores is the equipment. So that is total. There are 9 underground nodes and 5 overground nodes.

Our majority of the overground nodes, I think it is -- it has come up very well. As far as underground, 2 underground nodes that has been completed, site acceptance test and it is in the process of -- they are working, but we have to get the certificate in handing over. Remaining are at various stages. Three are very advanced stage. Maybe by this financial year, it will be completed remaining in next financial year. So that is the total status.

So whatever provisioning is there, I don't think this is the first year we are providing for IACCS projects with just INR230 crores. We have not provided and we've made any provisions earlier. This is first year. This is INR230 crores is the only provision, which is for IACCS for a project value of around INR8,000 crores. This provision includes both civil and the equipment's.

Jonas Bhutta: And this was to come with the AMC of INR2,000 crores. Has that AMC come?

Bhanu Srivastava: No, AMC, it's coming. AMC is coming because AMC, INR2,000 crores is for 7 years for our nodes. So as and when nodes are completed, that portion the AMC comes. So like overground nodes, if 4 became operational, we got the AMC after warranty completion we got the AMC. So underground nodes also, the moment -- they are complete and then warranty will be over, we will get. So this is contract is -- AMC contract is there in the main contract. The value is decided. Terms and condition are decided, but they will release the order, the movement warranties on side-by-side basis.

Moderator: The next question is from the line Atul Tiwari from Citigroup.

Atul Tiwari: Sir, in your order book, how much is the negotiated orders? And how much are competitively bid?

Bhanu Srivastava: Normally negotiated, you see around 90%. 10%, we can say that competitive bid also. But negotiation customer does in competitive bid also. Even if you are in L1, they do conduct negotiation and then pricing is finalized.

Atul Tiwari: Okay. So without any competition at all, the proportion will be 90%, the nominated order?

Bhanu Srivastava: But one thing I would like to bring it is when we say that without competition, without competition at this point of time. But many of the projects, we did had a competition at the initial stages. And we won and then when we -- it comes upgrades, it comes expansion, it comes all this things because we have already part – means services or products. So it makes sense for customers to come to us on single tender basis.

Atul Tiwari: Okay. And sir, for the nominated margins, so the methodology is now well settled. There is no if and but on the methodology as to how the margin will be provided. Just asking this question because a few years ago, we had a little bit of a confusion or controversy regarding how the margins will be provided. So now there is no doubt on how the margins will be provided to the company, right?

Bhanu Srivastava: Yes.

Atul Tiwari: Okay. And now that your margins are expanding on your P&L. So do you think that the customer or the government can kind of claw back some of the margins?

Bhanu Srivastava: I think because then we negotiate single-tender basis, they do have their benchmarking, right, with existing products, similar product, contemporary products, they do the cost edits for larger projects and then this is there. What I would like to say that when -- as per MOD guidelines, when they say that 7.5% margin, profit is allowed, so a clean profit over and above all expenses. And all expenses includes buildup material expense, then manufacturing overhead, nonmanufacturing overhead, then project management cost. Many, many cost or heads are there where pricing is given by government, cost is given by the government.

Now when you the efficient and very effective operations, you tend to save on all these fronts. And that's how our margin goes much more than 7.5% because of our operational efficiency. If you are able to negotiate, if you are able to better than what was the original proposal, if you are able to find out alternate source, alternate product which meets the same requirement. If we are able to indigenize some imported products, then and reduce the cost. If we do the project management very effectively in low cost. If we do so, many things are there. Overhead, we are able to reduce. We do with lesser overhead as compared to what is permissible as per government norms.

So all this add to the profit to or and above what 7.5% is in guidelines. So what we are able to maintain is our better efficiency, better project management and the innovation and R&D what we are spending and taking bringing down the cost, cost savings. We have the cost management committee across our SVO and R&D functions, where their main job is that continuously working on how to bring down the cost of each projects by all these various methodology, which includes innovation, which includes alternate development, indigenization, all these aspects they keep on working. So this is the way we are able to maintain that margin despite the government announced.

Atul Tiwari: But sir, in the next iteration of the same product, does not the MOD ask you to share some of these efficiency benefits? Because, I mean, like in the regulated utilities, we see that regulator kind of keeps on tightening the norms over a longer time frame so that the efficiency benefits are shared with the customer.

Bhanu Srivastava: But then electronics is a very fast-changing technology. So by the time next time comes many things get changed. So it is free tech. So this is our synergy. As a business organization, we have our own strategy how to meet the stakeholders', shareholders' expectation of margins.

Moderator: The next question is from the line of Mahesh Bendre from LIC Mutual Funds.

Mahesh Bendre: Sir, we are scaling up for operations and we are expecting a decent amount of orders going forward. So...

Moderator: Sorry to interrupt, sir. Your voice is coming as very low. Could you please speak a bit louder.

Mahesh Bendre: Sir, we have a decent order book and order inflow we are expecting. So I mean, to deliver these orders, the supply chain management is very important. So in terms of vendor management, I mean the current vendor we have in India and abroad? And what kind of expansion you see our development to see in those just to improve supply chain management?

Bhanu Srivastava: See, vendor management, many things. In defence projects, you get locked down to the vendor during trial and evaluation stage itself for majority of the cases. So you have initial vendor selection, vendor approval, you take that, you decide that. But once that OEM product gets evaluated, it becomes a bit tricky and longer-term process to replace that.

So, all these products when we go through trial, evaluation, we identify 1 or 2 sources where we get the product evaluated and we stick to that. So we are able to manage the supply chain issue fairly well. See, if there's some issue in some parts, we have a panel processing where we have a plan B for alternate source. But then we have to put extra efforts to get it parallelly evaluated, get limited qualification whatever the required is done and introduce that. So our R&D and product development teams keep on working on these aspects to take care of the risk mitigation.

Moderator: Thank you. The next question is from the line of Amit Bhinde from Morgan Stanley. Please go ahead.

Amit Bhinde: So sir, I wanted to understand the medium-term execution outlook given the large backlog plus the guidance that you have given? And also [49:42 X of QRSAM] also, we have a good pipeline. So if we talk about 3 to 4 years of execution, what could be the CAGR, growth CAGR that we can see?

Bhanu Srivastava: See, this year, we are targeting around 15%. That's what I'm telling based on what is the requirement of the customer. As earlier also I told that our execution plan depends upon when the items are required by the customer, what is the window for that.

Even if I have the INR75,000 crores, INR76,000 crores order, suppose this is related with the ships. Now if ship is going to be built in 2027, customer will take only 6 months in advance. Otherwise, what we will keep with this and we will pay to us and it will be lying there. So that's how we make that total production plan.

Like LCA also. we have order for full 83 quantity, but HAL will not take all full 83 in next 1 year, 1.5 years. They will spread it based on their capacity. So based on that, we make the execution plan for every year. So like this year, we are planning somewhere around 15% growth over this. That will be able to fairly meet the customer requirements. And this double-digit growth will continue and we will scale it up further. If further order comes, than our capacity, as I was telling, 5 new factories are coming.

So once this order inflow is much more than we'll scale up in even -- the growth maybe even better than what we are projecting now, much better than that. But that depends upon how our capacity buildup and what is the requirement or expectation of the customer.

Amit Bhinde: And sir, just the second one that I want to understand is how -- what is the R&D pipeline right now? And like how much of the percentage of revenue we are investing now and in the forecast that you think?

Bhanu Srivastava: Last year, we spent around INR1,100 crores, which was around 6% of our total turnover. On absolute term, we increased, but because our turnover grew much more, so percentage term, it is slightly lesser. But we are very aggressive on working on R&D. Many new projects we are taking in all our products remain. And we target at least 7% to 8% of our turnover going for R&D.

Amit Bhinde: All right. Sir, and just 1 more thing that on the BEML product that we have, when would that be ready? And any technical partner -- technology partnership that we are planning to have?

Bhanu Srivastava: BEML, we have signed an MOU to develop their electronic portion. There goes in their Metro products, that their bogies. so we have signed. We are working. We have formed the R&D team. So I don't think there is any technology partner is required. Our R&D is fully geared up. We got a lot of learnings from working with Metro for Metro products. What learning we got, we are leveraging on those learnings for working on BEML requirements. Maybe if some expertise is available are required from Delhi Metro, we will take from them.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Congratulations for good set of results. I just wanted to keep you on the employee cost. The employee cost has consistently come down over the last 8 years. Right now, it's around 12.5%. Where do you think this number would be over the next 2 years? That's the first question.

Bhanu Srivastava: It will be around the same range. Actually, the employee cost is increasing in absolute terms. As the turnover increase as well, the percentage has come down slightly. But consistently, we will expect it to be around 12% in the coming years.

Harshit Kapadia: Okay. And recently, sir, DRDO has come up Netra as a product for the AWACS system. We hear that Bharat Electronics could be the beneficiary here. if you can help us with the size of this order, I think there is around 6 Netra...

Bhanu Srivastava: See, it's still under discussion so at this point of time because now you are only saying that it's a very competitive market where DRDO has to look into many options including Bharat Electronics. So it is not fair for me to divulge at this point of time what we are asking to DRDO.

Harshit Kapadia: Okay. But any color on size, sir, would be helpful.

Bhanu Srivastava: No. We'll tell it later. When things are concrete, then only we will tell.

Harshit Kapadia: Understood. And sir, 1 question on BEML. So you also signed up with manufacture engines for tanks for BEML, right? You have come...

Bhanu Srivastava: No. BEML is working on developing the indigenous engine. So it is a multi-company MOU what we signed. BEML is there. We are there. I think AVNL also is there. So what we have contributed is, electronic portion of that engine will be done by us.

Harshit Kapadia: Okay. Understood, sir. But you will not be the lead integrator here, right?

Bhanu Srivastava: Lead is BEML. Engine is the majority. Main thing is ICE engine, internal combustion and mechanical and all these things -- BEML is having strength. Our core area is electronic portion.

Harshit Kapadia: And that engine prototype has already been developed, right? So right now, you are under testing those prototypes. Is that correct understanding?

Bhanu Srivastava: No, I have -- just now we have signed an MOU, so I have to look into. But I don't think prototype for what MOU we have signed it has been done. It is -- they have developed and tested prototype for some other version.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Sir, my first question is on there are several development programs happening on the artillery front, namely the ATAGS, TopGun system, MGS as well as light tanks. What would be our supply portion in these platforms? Also, if you could highlight what is the share of electronics as a percentage of overall cost in an artillery system, that would be helpful?

Bhanu Srivastava: See, artillery systems is now being done by private sector also and erstwhile [OSB company 56:21] also. So it depends upon what they want to get it from us and what they want to do from them, or they want to take from their OEMs. So at this point of time, it is difficult for us to really quantify for that. But yes, artillery command and control system, and all we're integrating all these artillery has been done by us, and we are working on upgrading that. Similarly, some of the artillery products which are being done by [OSB 56:53], their electronic suits are given by us.

Harshit Patel: Understood. Sir, my second question is could you give us an update on the Tapas, the UAV program, where you have been developing the payloads. This program, while the initial trials were reasonably successful, they fail to achieve certain required operational parameters. And I think the next set of trails will be conducted. So what is the road ahead over here?

Bhanu Srivastava: See, with all these things, IAF, what I understand and what input I have is that IAF is expecting to procure around 6 systems for Tapas, where lead will be HAL and payloads will be from us. So rough budgetary quote we have already given, so let us see when they process.

Harshit Patel: So, this will be like the limited series units before you get the bulk production order?

Bhanu Srivastava: I'm not very clear on that because Tapas, if you see, lead is HAL. But they did have taken a budgetary code from us for payloads.

Harshit Patel: Thank you very much for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Dipen Vakil, an individual investor. Please go ahead.

Dipen Vakil: Sir, my first question is on the line of. Sir, you mentioned that last year, you faced some supply chain disruption because of the Israel geography. Sir, can you highlight which were the main programs which were impacted where we procure components or subcomponents from foreign OEM? And what is it going ahead? Is everything sorted now or there are still any areas where we're still facing challenges?

Bhanu Srivastava: Some of the products which we had with foreign OEMs, see, it's not fair for me to just to specify one individual company or second individual company. There are many companies. Some of them case problems, some of them we're able to work on. But as of now, fairly has been addressed, what I can say.

Dipen Vakil: So which were the programs that were affected for us?

Bhanu Srivastava: That's what I'm telling. See, there are quite a few programs we are doing. So for me, specifying individual company is not fair for that company.

Dipen Vakil: Got it, sir, my second question is that you mentioned that the competition is rising, and we are seeing increased private sector participation also. So how does BEL looks at private sector participation? Is it more from collaborative front, or is it more from the competition front? And how do you see the situation evolving going ahead if it's on the collaborative front?

Bhanu Srivastava: It's -- both ways it is working. See, many products with big private sector, we are collaborating also. And some of area where the products are common, we are competing also. It's a very healthy situation. And in fact, some amount of competition is good because it brings the efficiency in the system. So we are fully geared up for facing competition. With the same set of OEMs, we are collaborating also.

See, L&T, you see Larsen & Toubro some of the projects we are competing. Some of the products, they're our suppliers. Some of the products, they're -- as a shipbuilder, they are our customers. So all 3 types of relationships are there with the L&T. Similarly, Tata also same thing is there. So we are working on many products with this private company as a collaborator. But some of them is a fair game, where we have a similar type of product we compete also.

Dipen Vakil: So is it fair to say that wherever BEL is collaborating, BEL will keep a core strategically important components with them and outsource other subcomponents to private players?

Bhanu Srivastava: See, it depends upon who is the lead. See, if it is my product, I will keep core with me and give non-core to others. If it is their product, they will keep core with them and give us non-core. So it depends upon who has got upper hand. So case to case, it depends. If we are leading, then definitely, as a strategy, I would like to not part away with the core.

Dipen Vakil: Got it, sir. Thank you so much for answering my question. All the best, FY'25.

Amit A. Dixit: Sir. We'll take you to the last couple of questions, please.

Moderator: Thank you. Sir, you want to take more questions?

Bhanu Srivastava: No. Last question. You can close it, please.

Moderator: Yes, sir. Ladies and gentlemen, due to time constraint, that was the last question for today's conference call. I would like to hand the conference over to the management for closing comments.

Bhanu Srivastava: Closing comments. So, thank you very much to all of you for discussing with us and having a query on Bharat Electronics. So again, I would like to reiterate our future outlook and our guidance for '24-'25. We are targeting a revenue of around 15%. EBITDA margin, 23% to 25%. Order inflow around INR25,000 crores.

R&D investment between 6%, to 7%, roughly around INR1,300 crores to INR1,400 crores. capex around INR700 crores to INR800 crores. And defense to nondefense business in the 85-15, roughly in that count. Export around $110 million, that's what we are expecting. Order acquisition in export around the $200 million plus. So these are our guidance.

Thank you very much again for showing confidence in Bharat Electronics, and I assure you that we strive hard to do much, better than what we say. So a bit conservative. That's why whatever we say, it's based on our very thorough analysis and work by our team with a lot of homework done. And whatever we say, we stand by it. Thank you very much.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.