

Bharat Electronics

Estimate change



TP change



Rating change



CMP: INR279

TP: INR360 (+29%)

Buy

Strong performance and upbeat outlook

Bharat Electronics (BHE)'s 3QFY25 results came ahead of our estimates on all parameters. Revenue growth was led by a strong order book, which stood at INR771b. Order inflows stood at INR110b during 9MFY25. As highlighted in our top pick note ([Link](#)), we expect BHE to remain a key beneficiary of defense electronics opportunities of large platform orders across the army, navy, and air force. The company expects large order inflows from QRSAM, MRSAM, next-generation corvettes, the defense electronics portion from P75 and P75I, and even Kavach-related orders to materialize in the coming years starting from FY26. We expect the company's revenue to post a 19% CAGR over FY24-27 driven by improved market share on account of enhanced wallet share as well as improved indigenized offerings. We trim our estimates to bake in lower other income and continue to value the company at 35x two-year forward earnings. We reiterate our BUY rating with an unchanged TP of INR360.

Robust growth with healthy margins and earnings beat

BHE's results came ahead of our estimates on revenue, EBITDA, and PAT fronts. The 3QFY25 revenue surged 39% YoY to INR57.6b vs. our estimate of INR49.7b, indicating a 16% outperformance. This was driven by a strong order book of INR711b and an inflow of around INR110b during 9MFY25. EBITDA grew 58% YoY to INR16.5b, beating our estimate by 33%. EBITDA margin expanded YoY to 28.7% vs. our estimate of 25%. Gross margin contracted 30bp YoY to 48.0% in 3QFY25 vs. our estimate of 49.0%. Margin performance is dependent upon the project mix during the quarter. Strong margin performance resulted in a 28% beat in PBT and PAT vs. our estimates. PAT stood at INR13.2b, up 47.3% YoY vs. our estimate of INR10.3b. The company has maintained its guidance of more than 15% revenue growth, 23-25% EBITDA margin, and an inflow of INR250b for FY25.

To benefit from the upcoming opportunities across different platforms

BHE, as a leading PSU in defense electronics, is well-positioned to secure a significant share of orders for radar systems, TR modules, EW systems, and other critical subsystems. The company is constantly eyeing opportunities in all three platforms, i.e., the Indian Air Force, Indian Army, and Indian Navy. BHE is now evolving from the development of the EW sub-system to the development of the whole EW-suites. On the aircraft front, BHE already has orders for the development of EW sub-systems for the LCA MK-1a and has future opportunities from other projects such as MIG-29, LCH, LUH, ALH next, Jaguar aircraft, and MI-17, et. al. On the Army front, the company is expecting orders for QRSAM worth INR250b to flow in by the end of FY26. On the Navy front, management expects orders amounting to INR150b to come in for MRSAM and Next-Gen Corvettes by the end of FY26. We expect order inflows of INR250b/INR360b/INR414b for FY25/FY26/FY27, and expect revenue CAGR of 17% for the same period.

Bloomberg	BHE IN
Equity Shares (m)	7310
M.Cap.(INRb)/(USDb)	2037.6 / 23.5
52-Week Range (INR)	341 / 172
1, 6, 12 Rel. Per (%)	0/-6/40
12M Avg Val (INR M)	8578

Financials Snapshot (INR b)

Y/E March	2025E	2026E	2027E
Sales	234.2	274.9	325.3
Sales Gr. (%)	16.1	17.4	18.3
EBITDA	60.4	69.0	81.7
EBITDA Margin	25.8	25.1	25.1
Adj. PAT	48.9	57.0	69.0
Adj. EPS (INR)	6.7	7.8	9.4
EPS Gr. (%)	21.7	16.5	21.0
BV/Sh. (INR)	27.8	34.5	42.5

Ratios

RoE (%)	24.1	22.6	22.2
RoCE (%)	26.9	25.1	24.5
Payout (%)	14.5	14.5	14.5

Valuations

P/E (x)	41.6	35.7	29.5
P/BV (x)	10.0	8.1	6.6
EV/EBITDA (x)	31.5	26.9	22.0
Div. Yield (%)	0.3	0.4	0.5

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	51.1	51.1	51.1
DII	20.9	20.2	23.4
FII	17.4	17.3	17.8
Others	10.6	11.4	7.7

FII Includes depository receipts

Key order inflows announced so far

During 9MFY25, BHE received key orders such as INR42b for LRSAM, and INR11.5b worth of orders, including AMC of Akash Missile System, Combat Management System for Ships, Missile Fire Control System for ships, Laser Range Finders, Communication Network Centre, etc. It received INR31.72b of orders from AVNL for the supply and installation of an advanced, indigenously designed and developed Sighting and Fire Control System (FCS) for the upgrade of BMP 2/2K Tanks of the Indian Army, orders worth INR8.5b from Cochin Shipyard for the supply of indigenous multi-function radar in X-Band, INR9.7b worth of order including platform screen doors for metro rail, radars, communication equipment, jammers, etc. BHE also received multiple orders amounting to INRINR21.9b spread across maintenance of Akash Missile Systems, communication equipment, radars, seekers, jammers, test equipment, thermal imagers, fire control systems, navigational systems for ships, communication equipment, spares, services, etc., bringing the total accumulated orders to INR108.93b.

Financial outlook

We factor in large-sized order inflows from QRSAM and next-generation corvettes to materialize between FY26 and FY27 and raise our order inflow estimates. We also bake in the longer gestation period of these orders and expect a sales/EBITDA/ PAT CAGR of 17%/18%/20% over FY24-27. We expect OCF/FCF to remain strong over FY25-27, led by control over working capital. Further, the company had a cash surplus of INR110b (as of FY24), providing scope for further capacity expansion.

Key risks and concerns

A slowdown in order inflows from the defense and non-defense segments, intensified competition, further delays in the finalization of large tenders, a spike in commodity prices, and delays in payments from the MoD can adversely impact our estimates on revenue, margins, and cash flows.

Valuation and view

BHE is currently trading at 35.7x/29.5x on FY26E/FY27E EPS. We tweak our estimates to account for higher margin estimates and lower other income and maintain our fair value of INR360 on 35x Mar'27E. **We reiterate our BUY rating on the stock with an unchanged TP of INR360.**

Standalone Quarterly Performance

Y/E March (INR b)	FY24				FY25E				FY24	FY25E	FY25E 3QE	Est Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	35.1	39.9	41.4	85.3	42.0	45.8	57.6	88.8	201.7	234.2	49.7	16
Change (%)	12.8	1.2	0.1	32.1	19.6	14.8	39.1	4.1	14.3	16.1	20.1	
EBITDA	6.6	10.0	10.5	22.8	9.4	13.9	16.5	20.7	50.0	60.4	12.4	33
Change (%)	29.4	17.4	23.0	24.9	41.0	38.2	57.5	(9.4)	23.5	20.9	18.3	
As of % Sales	18.9	25.2	25.4	26.7	22.3	30.3	28.7	23.3	24.8	25.8	25.0	
Depreciation	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.2	4.1	4.3	1.1	(7)
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	(25)
Other Income	1.4	1.7	2.2	2.2	2.0	1.7	2.1	3.1	7.6	8.9	2.4	(14)
PBT	7.0	10.7	11.7	23.9	10.4	14.5	17.5	22.5	53.3	64.9	13.7	28
Tax	1.7	2.6	2.8	6.0	2.6	3.6	4.4	5.4	13.1	16.0	3.4	
Effective Tax Rate (%)	24.6	24.3	23.8	25.2	25.2	24.8	25.0	24.0	24.6	24.6	24.6	
Reported PAT	5.3	8.1	8.9	17.8	7.8	10.9	13.2	17.1	40.2	48.9	10.3	28
Change (%)	23.0	32.9	49.2	30.6	46.2	34.3	47.3	(4.2)	33.7	21.7	15.4	
Adj PAT	5.3	8.1	8.9	17.8	7.8	10.9	13.2	17.1	40.2	48.9	10.3	28
Change (%)	23.0	32.9	49.2	30.6	46.2	34.3	47.3	(4.2)	33.7	21.7	15.4	



Conference call highlights

Major orders executed in the quarter

Management stated that the major orders that were executed in 3QFY25 were for LRSAM, WLR (weapon locating radar), Shakti EW systems, ADCRS for Akashteer systems, and the execution of a civilian project (CIVIC). As of this date, out of the INR711b order book, around INR200b-250b worth of orders consist of orders for LRSAM, electronic fuses, Himshakti, Arudhra radar, and BMP-2 upgrade.

Order inflows to peak in 4Q

Order inflows for 9MFY25 were around INR110b and the management had guided it to reach INR250b for FY25. The company continues to maintain that guidance and is confident that the gap of INR140b will be filled in by the end of 4QFY25.

Management stated that the large orders that they were expecting are in the finalization stage and orders for the same should come in within 1-2 months. Major orders expected are Ashwini Radar, EW Suite for MI-17, Atulya, and Himshakti, et al.

Status on prototype order for KAVACH

Management stated that for the orders on Kavach, they are in the process of developing an indigenous product for the prototype order they received from the railways. The same is expected to be completed by Jun-Jul'26. After this R&D stage, the same will be submitted to railways for further integration and testing, which takes around 4-6 months. The company expects to get clearance and certification on this by Dec'25-Jan'26 and will be ready for the next bid.

Share of non-defense to increase in the future

For the past few years and the first nine months of FY25, the share of non-defense in revenue and order book has been between 7-9%. The company's target is to initially increase that to 10-15% and later maintain it at 20-25% level. To achieve that, management plans to enter different markets such as network and cybersecurity-related business, and homeland security. Management also stated that it wants to target data centers and border security for the same.

Company guidance

The company continues to maintain its FY25 guidance for revenue of +15% YoY, Gross margins to be 42-44%, EBITDA margin to be in the range of 23-25%, and order inflows to reach INR250b.

Key Exhibits

Exhibit 1: Order books continue to remain strong

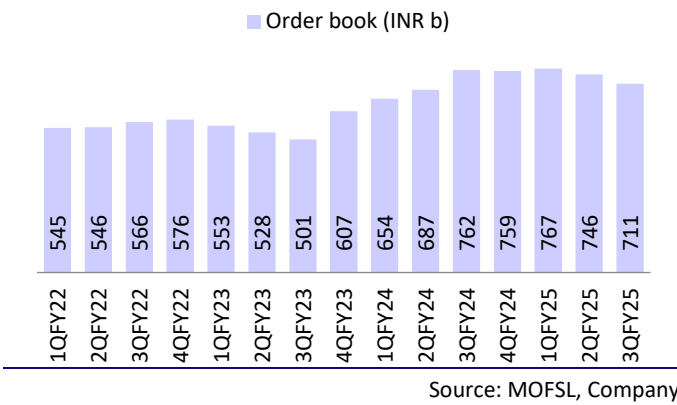


Exhibit 2: Order inflows expected to spike in 4Q

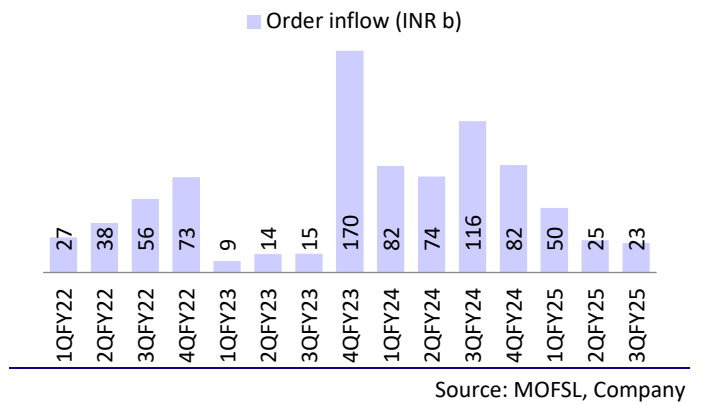


Exhibit 3: Revenue growth strong at 44% YoY

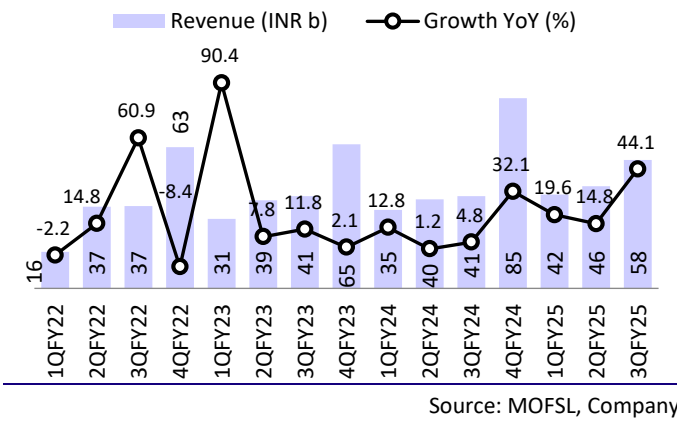


Exhibit 4: Gross margin back to the normal level

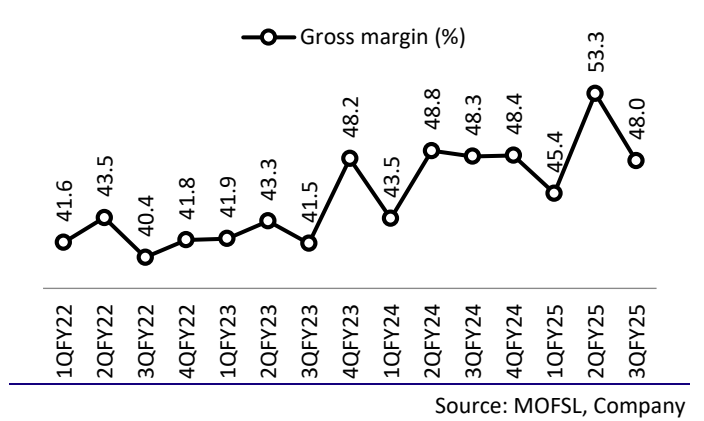


Exhibit 5: EBITDA margin continued to remain strong

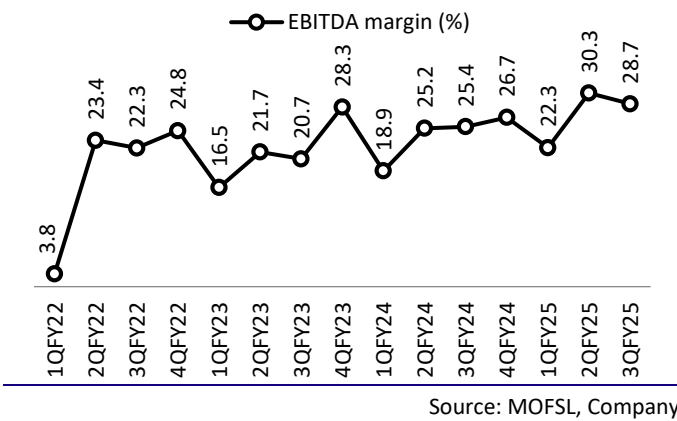


Exhibit 6: PAT performance remained strong at +28% YoY

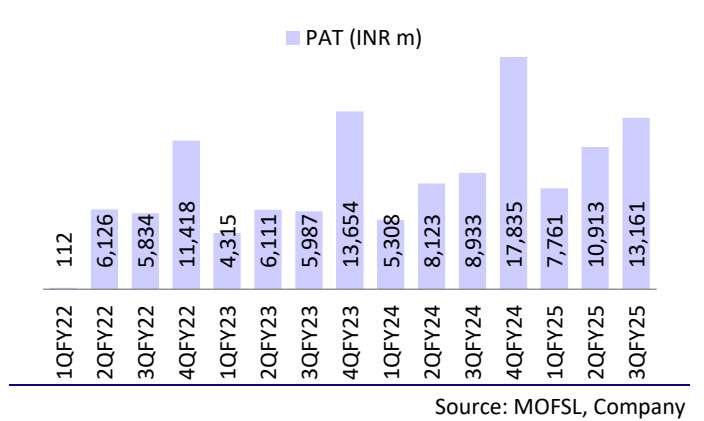


Exhibit 7: BHE eyeing opportunities across platforms; the upcoming/in-process projects from all platforms

Category	Project	Est. Proj. Value (INR b)	Quantity (units)	Comments
INDIAN AIR FORCE				
Aerospace Projects	Tejas Mk1a	480	83	❖ Order placed. Delivery delayed due to a supply chain issue on GE's end.
	Tejas Mk1a	650	97	❖ To be placed
	Tejas Mk2	na	108	❖ First prototype Mar' 26, and mass production by May'29. Sanctioned INR100b for the development of the aircraft and to run trials.
	LUH	na	110	❖ Delivery to begin from 1QFY26. Delay due to supply of flight control system or autopilot software purchased from the France-based Safran Electronics
	LUH	97	197	❖ Deal with Russia canceled. But will go to HAL for indigenized manufacturing.
	Su30 upgrade	260	240	❖ Delivery in 8 years
	LCH	500	156	❖ Prachand to replace Chetak and Cheetah.
INDIAN NAVY				
Submarine Projects	Project 75I	NA	6	❖ 6 submarines to be awarded to a single bidder
	Scorpene submarines	270	3	❖ Follow-on to the existing P-75 program
	AIP plugs	19.9	na	❖ Order received on 30th Dec 2024 by MDL
Shipbuilding Projects	Project -17 Alpha Frigates	na	na	❖ Potential repeat orders from IN
	Next-Generation Corvette and Destroyers	>340	na	❖ Timelines and details under evaluation
Coast Guard and Offshore	Additional ships	na	31	❖ Ships for the Coast Guard including smaller vessels
	PRPP, DSF II & PRP 8 Grade A	65.2	na	❖ Order from ONGC
INDIAN ARMY				
Network-centric Warfare	Drone-based Electronic Signals Intelligence (ELINT) system	na	na	
	QRSAM	250-300	na	❖ Fresh trials expected to be completed in CY26
	Shakti EW	20	na	
	Low-Level Transportable Radars (LLTR)	25	na	❖ Ashwini Radar
	Air Defence Fire Control Radar (ADFCR)-ATULYA	20	na	

Source: Industry, MOFSL

Exhibit 8: We tweak our estimates on the longer gestation period of orders, increased order inflow expectation, and lower other income estimates

(INR m)	FY25E			FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Order inflow	2,50,000	2,50,000	0.0	3,60,000	3,00,000	20.0	4,14,000	3,60,000	15.0
Net Sales	2,34,163	2,34,163	0.0	2,74,888	2,74,568	0.1	3,25,308	3,23,368	0.6
EBITDA	60,440	58,800	2.8	69,027	68,946	0.1	81,688	81,201	0.6
EBITDA (%)	25.8	25.1	70 bp	25.1	25.1	0 bp	25.1	25.1	0 bp
Adj. PAT	48,926	48,198	1.5	57,000	57,649	(1.1)	68,955	69,623	(1.0)
EPS (INR)	6.7	6.6	1.5	7.8	7.9	(1.1)	9.4	9.5	(1.0)

Source: Company, MOFSL

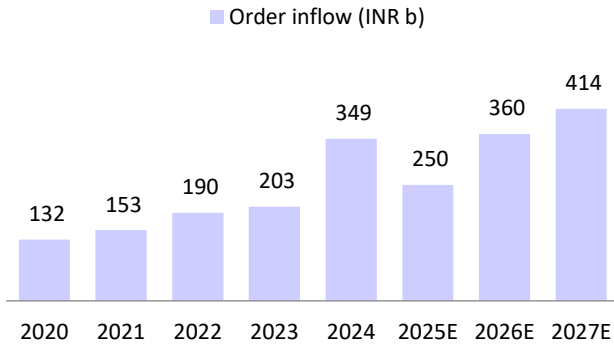
Exhibit 9: BHE's order inflows announced as of YTFY25

Date	Order	Amount (INR b)	Accumulated Orders (INR b)	Customer
28-Jan-25	Major orders include advanced composite communication systems for ship, communication equipment, medical electronics, electro-optics, active radar homing head for missiles, classroom jammers, spares, services, etc.	5.31	108.93	
13-Jan-25	Major orders include communication equipment, electro-optics, upgrades for the satcom network, radar & fire control system, spares, services, etc.	5.61	103.62	
23-Dec-24	Major orders include platform screen doors for metro rail, radars, communication equipment, jammers, seekers, upgraded submarine sonar, upgraded satcom terminals, test stations, spares, services, etc.	9.73	98.01	
09-Dec-24	Major orders include maintenance of the Akash Missile System, telescopic sights for guns, communication equipment, jammers, electronic voting machines, test stations, spares, services, etc.	6.34	88.28	
08-Nov-24	Major orders received include Laser Range Finders, communication equipment, vessel communication and support systems, test equipment for guns, spares, services, etc.	5.00	81.94	
07-Oct-24	Major orders received include EMI shelters, AMC for Integrated Air Command and Control system nodes, Upgrade/spares for gun systems, spares for radars, communication systems, etc.	5.00	76.98	
11-Sep-24	Supply of Indigenous Multi-Function Radar in X Band	8.5	70.75	Cochin Shipyard Limited (CSL)
	Includes navigational complex systems for ships, thermal imagers, communication equipment, fire control systems, gun control systems, spares, services, etc.	3.05		
22-Aug-24	Major orders comprise of Combat Management System, Communication equipment, Stabilized Optronic Pedestal, Upgrades, Spares, Services, etc.	6.95	59.2	
28-Jun-24	Supply and installation of an advanced, indigenously designed, and developed Sighting and Fire Control System (FCS) for the upgrade of BMP 2/2K Tanks of the Indian Army, along with a comprehensive Engineering Support Package.	31.72	48.03	Armored Vehicles Nigam Limited (AVNL)
	Doppler Weather Radar, Classroom jammers, spares and services, etc.	4.81		
22-May-24	Includes AMC of Akash Missile System, Combat Management System for Ships, Missile Fire Control System for ships, Laser Range Finders, Communication Network Centre, etc.	11.50		

Source: Company

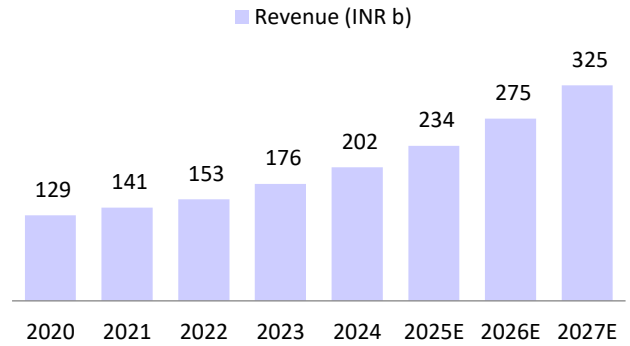
Financial outlook

Exhibit 10: We bake in large-sized inflows to materialize during FY26/27



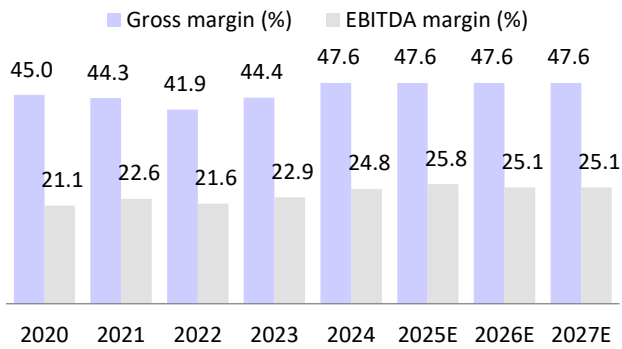
Source: MOFSL, Company

Exhibit 11: We expect a 17% revenue CAGR over FY24-27



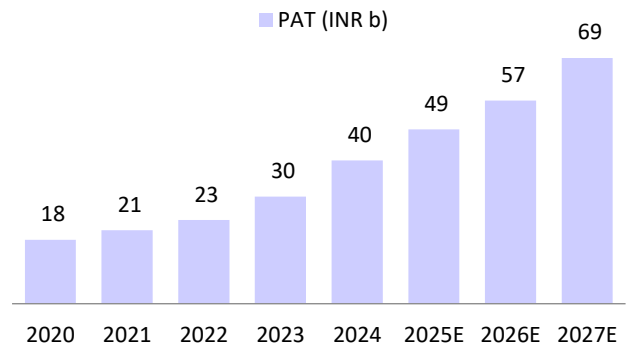
Source: MOFSL, Company

Exhibit 12: Gross/EBITDA margins to range around 48%/25%



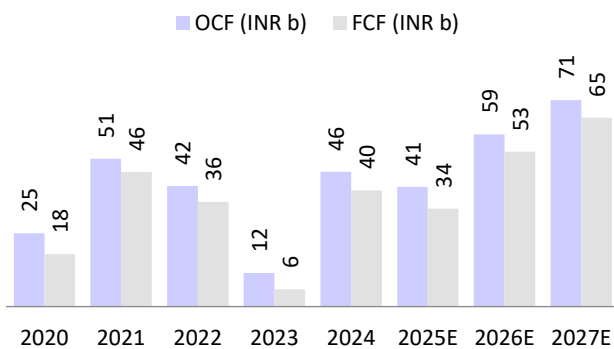
Source: MOFSL, Company

Exhibit 13: We expect a PAT CAGR of 20% over FY24-27



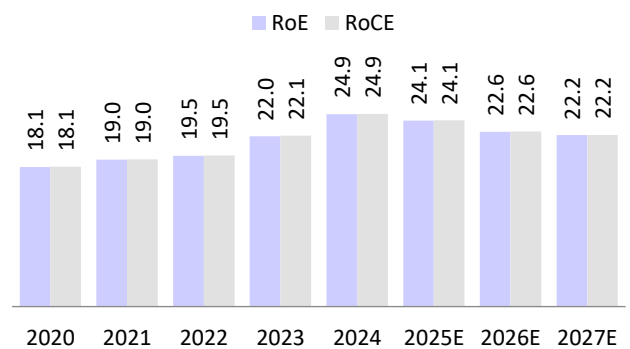
Source: MOFSL, Company

Exhibit 14: OCF & FCF to increase beyond FY25



Source: MOFSL, Company

Exhibit 15: RoE and RoCE to remain in the range of 22-23%



Source: MOFSL, Company

Financials and valuation

Income Statement							(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Net Sales	1,40,638	1,53,138	1,76,462	2,01,694	2,34,163	2,74,888	3,25,308
Change (%)	8.8	8.9	15.2	14.3	16.1	17.4	18.3
Raw Materials	78,278	89,025	98,088	1,05,659	1,22,668	1,44,002	1,70,415
Gross Profit	62,360	64,113	78,374	96,035	1,11,495	1,30,885	1,54,893
Staff Cost	19,407	21,094	22,977	24,667	26,929	33,536	39,688
Other expenses	11,142	9,926	14,921	21,386	24,126	28,322	33,517
EBITDA	31,811	33,092	40,475	49,982	60,440	69,027	81,688
% of Net Sales	22.6	21.6	22.9	24.8	25.8	25.1	25.1
Depreciation	3,663	3,802	4,079	4,124	4,299	4,751	5,153
Interest	61	49	148	70	70	70	70
Other Income	1,261	2,336	3,600	7,558	8,855	11,434	15,040
PBT	29,348	31,578	39,849	53,346	64,925	75,640	91,504
Tax	8,694	8,089	9,782	13,146	15,999	18,639	22,549
Rate (%)	29.6	25.6	24.5	24.6	24.6	24.6	24.6
Adjusted PAT	20,654	23,489	30,067	40,200	48,926	57,000	68,955
Reported PAT	20,654	23,489	30,067	40,200	48,926	57,000	68,955
Change (%)	15.1	13.7	28.0	33.7	21.7	16.5	21.0

Balance Sheet							(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Share Capital	2,437	2,437	7,310	7,310	7,310	7,310	7,310
Reserves	1,06,331	1,18,055	1,29,146	1,54,116	1,95,925	2,44,633	3,03,558
Net Worth	1,08,768	1,20,492	1,36,455	1,61,426	2,03,235	2,51,943	3,10,868
Loans	-	-	-	-	-	-	-
Deferred Tax Liability	(4,634)	(6,207)	(5,034)	(5,742)	(5,742)	(5,742)	(5,742)
Capital Employed	1,04,134	1,14,285	1,31,422	1,55,684	1,97,493	2,46,201	3,05,126
Gross Fixed Assets	45,103	50,090	55,847	60,414	67,914	73,914	79,914
Less: Depreciation	16,448	20,250	24,328	28,453	32,752	37,503	42,656
Net Fixed Assets	28,655	29,840	31,518	31,962	35,163	36,412	37,258
Capital WIP	3,507	3,986	3,616	4,538	4,538	4,538	4,538
Investments	13,313	15,543	6,645	7,678	7,678	7,678	7,678
Curr. Assets	2,40,423	2,78,924	3,03,732	3,41,637	4,17,920	5,11,956	6,27,698
Inventory	49,547	55,669	64,121	74,076	85,325	1,00,165	1,18,537
Debtors	65,515	61,034	70,220	73,622	93,024	1,09,202	1,29,232
Cash & Bank Balance	50,082	74,991	80,090	1,09,681	1,36,283	1,81,338	2,36,437
Loans & Advances	527	88	83	84	642	753	891
Other Current Assets	74,752	87,142	89,219	84,174	1,02,647	1,20,499	1,42,601
Current Liab. & Prov.	1,81,764	2,14,008	2,14,089	2,30,131	2,67,806	3,14,382	3,72,046
Liabilities	1,64,265	1,91,851	1,99,468	2,13,630	2,48,649	2,91,894	3,45,433
Provisions	17,499	22,157	14,621	16,500	19,157	22,488	26,613
Net Current Assets	58,659	64,916	89,643	1,11,506	1,50,114	1,97,574	2,55,652
Application of Funds	1,04,134	1,14,285	1,31,422	1,55,684	1,97,493	2,46,201	3,05,126

Financials and valuation

Ratios							
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Adjusted EPS	8.5	9.6	4.1	5.5	6.7	7.8	9.4
Growth (%)	15.1	13.7	-57.3	33.7	21.7	16.5	21.0
Cash EPS	10.0	11.2	4.7	6.1	7.3	8.4	10.1
Book Value	44.6	49.5	18.7	22.1	27.8	34.5	42.5
DPS	3.4	4.2	1.7	0.8	1.0	1.1	1.4
Payout (incl. Div. Tax.)	40	44	41	15	15	15	15
Valuation (x)							
P/E (standalone)	32.9	28.9	67.8	50.7	41.6	35.7	29.5
Cash P/E	27.9	24.9	59.7	46.0	38.3	33.0	27.5
EV/EBITDA	19.8	18.3	48.4	38.6	31.5	26.9	22.0
EV/Sales	4.6	4.0	11.3	9.6	8.1	6.8	5.5
Price/Book Value	6.2	5.6	14.9	12.6	10.0	8.1	6.6
Dividend Yield (%)	1.2	1.5	0.6	0.3	0.3	0.4	0.5
Profitability Ratios (%)							
RoE	19.0	19.5	22.0	24.9	24.1	22.6	22.2
RoCE	19.9	20.5	23.5	27.0	26.9	25.1	24.5
RoIC	38.9	76.5	90.3	92.3	102.2	95.3	105.7
Turnover Ratios							
Debtors (Days)	170	145	145	133	145	145	145
Inventory (Days)	129	133	133	134	133	133	133
Fixed Asset Turnover (x)	3.1	3.0	3.1	3.3	3.4	3.7	4.1

Cash Flow Statement							(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
PBT before Extraordinary Items	29,348	31,578	39,849	53,346	64,925	75,640	91,504
Add : Depreciation	3,663	3,802	4,079	4,124	4,299	4,751	5,153
Interest and others	750	(1,241)	(2,046)	5,516	70	70	70
Less : Direct Taxes Paid	5,323	8,024	9,150	14,130	15,999	18,639	22,549
(Inc)/Dec in WC	22,597	15,498	(21,179)	(2,376)	(12,006)	(2,405)	(2,978)
CF from Operations	51,035	41,612	11,552	46,480	41,290	59,416	71,201
CF from Operations after EOI	51,035	41,612	11,552	46,480	41,290	59,416	71,201
(Inc)/Dec in FA	(4,664)	(5,461)	(5,621)	(6,423)	(7,500)	(6,000)	(6,000)
Free Cash Flow	46,371	36,151	5,931	40,057	33,790	53,416	65,201
(Pur)/Sale of Investments	(1,094)	(43,145)	33,442	(52,465)	-	-	-
CF from Investments	(5,758)	(48,606)	27,820	(58,888)	(7,500)	(6,000)	(6,000)
(Inc)/Dec in Networth	(83)	-	-	-	-	-	0
(Inc)/Dec in Debt	(16)	-	-	-	-	-	-
Less : Interest Paid	431	539	697	128	70	70	70
Dividend Paid	10,227	10,233	12,424	14,615	7,117	8,292	10,031
CF from Fin. Activity	(10,757)	(10,772)	(13,121)	(14,743)	(7,187)	(8,362)	(10,101)
Inc/Dec of Cash	34,519	(17,766)	26,251	(27,152)	26,602	45,054	55,100
Add: Beginning Balance	15,562	50,082	74,991	80,090	1,09,681	1,36,283	1,81,338
Other adjustments	-	42,675	(21,153)	56,743	-	-	-
Closing Balance	50,082	74,991	80,090	1,09,681	1,36,283	1,81,338	2,36,437

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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