

Bharat Electronics | BUY

Strong performance continues; positive outlook intact

Bharat Electronics (BHE) reported numbers above expectation, with revenue growing 19.6% YoY to INR 42bn and EBITDA margins expanding 340bps YoY. Order book as on 1QFY25 stands strong at INR 767bn (3.7x TTM sales). Order pipeline continues to remain robust for next couple of year, driven by government focus on product localization and increasing government capex on defence sector. BEL expects to bag orders worth INR 250bn, in FY25. QRSAM (project worth INR 250bn) all trails are completed successfully and orders are expect to be placed in FY26. Order pipeline for FY26 stands at INR 500bn (incl. QRSAM order). Management reaffirmed its revenue guidance of 15% growth for FY25; with EIBTDA margins of 23%-25%. BEL will continue to explore new growth opportunities through export initiatives, diversification, capability enhancement, competitiveness and modernisation. Capex planned for FY25 stands at INR8bn.

- Revenue reported strong growth for 1QFY25:** Net sales grew 19.6% YoY to INR 42bn above JMFe INR 38.8bn, driven by strong opening order backlog (INR 759bn, 3.8x TTM sales as on FY24). EBITDA grew 41% YoY to INR 9.4bn (JMFe of INR 7.5bn). with EBITDA margin expanding 340bps YoY to 22.3% (JMFe 19.2% and con. est of 21.3%), mainly driven by gross margins expansion of 200bps and lower employee cost as % of sales (15.7% vs 17.8% YoY). Other expenses were higher by 30% YoY due to higher provision of LD's (INR 1320mn vs INR 540mn YoY). PAT grew 46.2%YoY to INR 7.8bn, (JMFe of INR 5.9bn).
- Order book stands strong at INR 767bn:** Order inflow during the quarter came in c.INR 48bn (down 40% YoY, high base). Order book stands as on Jun'24 stands at INR 767bn (3.7x TTM sales, up 17.4% YoY). Off the total order book- Defence accounts for 85.8%, non-Defence 11.3% and exports 2.9%. Order pipeline continues to remain strong with expected orders like ADFCR Atulya, EW suite B17, security & surveillance system for Army, mountain radar etc.
- KAVACH to be a add on for diversification plans:** Supply challenges of Kavach systems from existing vendor (three existing), has opened up a new opportunity for BEL. BEL is in process of developing prototype of KAVACH system and Indian Railways has granted BEL an 18-month timeline for same. It will take another 24 months for BEL to generate revenue from same. BEL opportunity size stands at INR 200-300bn over 5-6 years.
- Maintain BUY with TP of INR 360:** We remain positive on BEL given strong order backlog, strong revenue visibility, sustained steady margin profile, healthy order prospects, continuous focus on diversification & exports markets and continued indigenisation push by Gol. We have assumed order inflows of INR 700bn for FY25 and FY26 combined, vs management guidance of INR 750bn (excl. QRSAM INR 500bn guidance). Factoring this, we expect revenue and PAT CAGR of 20% over FY24 - FY26E. We maintain BUY rating on stock with TP of INR 360 valuing it at PE of 45x FY26E (earlier 40x FY26E), factoring in strong order pipeline and defence outlook.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	360
Upside/(Downside)	12.0%
Previous Price Target	320
Change	12.5%

Key Data – BHE IN

Current Market Price	INR321
Market cap (bn)	INR2,349.0/US\$28.1
Free Float	49%
Shares in issue (mn)	7,309.8
Diluted share (mn)	7,309.8
3-mon avg daily val (mn)	INR14,910.6/US\$178.1
52-week range	341/124
Sensex/Nifty	81,356/24,836
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	5.1	68.3	146.9
Relative*	2.1	47.2	100.8

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	1,53,138	1,76,462	2,01,694	2,41,495	2,92,736
Sales Growth (%)	8.9	15.2	14.3	19.7	21.2
EBITDA	33,092	40,476	49,982	58,291	73,101
EBITDA Margin (%)	21.6	22.9	24.8	24.1	25.0
Adjusted Net Profit	23,489	30,067	40,200	46,306	57,930
Diluted EPS (INR)	3.2	4.1	5.5	6.3	7.9
Diluted EPS Growth (%)	13.7	28.0	33.7	15.2	25.1
ROIC (%)	57.8	68.9	73.7	84.5	90.8
ROE (%)	20.5	23.4	27.0	26.6	28.6
P/E (x)	99.9	78.0	58.4	50.7	40.5
P/B (x)	19.5	17.2	14.5	12.6	10.7
EV/EBITDA (x)	68.6	56.0	44.8	38.1	30.1
Dividend Yield (%)	0.5	0.6	0.7	0.9	1.1

Source: Company data, JM Financial. Note: Valuations as of 29/Jul/2024

JM Financial Institutional Securities Limited

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Quarterly Performance

Y/E March (INR mn)	1QFY24	1QFY25	YoY (%)	4QFY24	QoQ (%)	1QFY25E	Var (%)
Net Sales	35,108	41,988	19.6	85,285	-50.8	38,798	8.2
Expenditure	28,464	32,620	14.6	62,486	-47.8	31,349	4.1
EBITDA	6,644	9,367	41.0	22,800	-58.9	7,449	25.8
EBITDA (%)	18.9	22.3	340bps	26.7	-440bps	19.2	310bps
Other income	1,417	2,015	42.2	2,205	-8.6	1,558	29.3
Depreciation	1,013	997	-1.5	1,109	-10.1	1,120	-11.0
EBIT	7,048	10,385	47.3	23,895	-56.5	7,887	31.7
Interest	11	12	10.3	39	-70.0	11	
PBT before Eol	7,038	10,373	47.4	23,856	-56.5	7,876	31.7
Eol	0	0		0	0bps	0	
PBT	7,038	10,373	47.4	23,856	-56.5	7,876	31.7
Tax	1,729	2,612	51.1	6,021	-56.6	1,985	31.6
Tax rate (%)	24.6	25.2	60bps	25.2	-10bps	25.2	
PAT	5,308	7,761	46.2	17,835	-56.5	5,892	31.7
EPS (INR)	0.7	1.1	46.2	2.4	-56.5	0.8	31.7
Adj PAT	5,308	7,761	46.2	17,835	-56.5	5,892	31.7
Adj EPS (INR)	0.7	1.1	46.2	2.4	-56.5	0.8	31.7

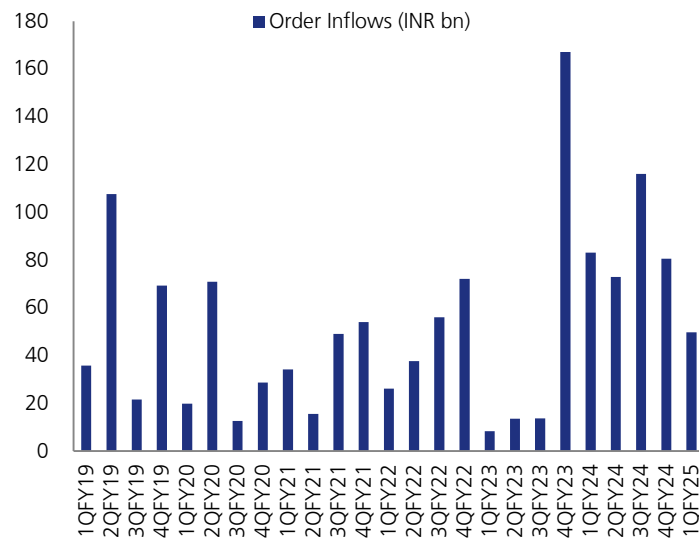
Source: Company, JM Financial

Exhibit 2. Cost Breakup

Y/E March (INR mn)	1QFY24	1QFY25	YoY (%)	4QFY24	QoQ (%)	1QFY25E	Var (%)
COGS	19,844	22,906	15.4	43,994	-47.9	21,921	4.5
as a % of sales	56.5	54.6	-200bps	51.6	300bps	56.5	-190bps
Staff Cost	6,237	6,608	5.9	6,300	4.9	6,402	3.2
as a % of sales	17.8	15.7	-200bps	7.4	840bps	16.5	-80bps
Other Expenditure	2,383	3,106	30.3	12,192	-74.5	3,026	2.6
as a % of sales	6.8	7.4	60bps	14.3	-690bps	7.8	-40bps

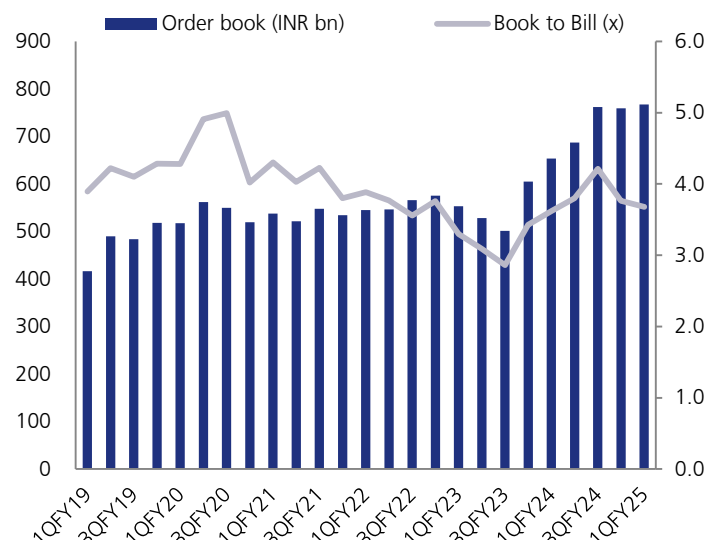
Source: Company, JM Financial

Exhibit 3. 1QFY25, order inflow growth impacted due to elections and high base



Source: Company, JM Financial

Exhibit 4. Order book stands strong at INR 767bn, 3,7x TTM sales as on 1QFY25



Source: Company, JM Financial

Key Concall Takeaways

- **Guidance:** Management maintained its revenue guidance of 15% growth for FY25. Order inflow to be INR 250bn. Gross margins to be 40-42% sustainable, with EBITDA margins in range of 23-25%.
- Cumulative order inflow for FY25 and FY26 to be INR 750bn, including QRSAM orders.
- QRSAM- All trails are completed successfully, expect orders in FY26 (INR +250bn).
- Contracts executed in 1QFY25- 1) LRSAM- INR 8.4bn, 2) TBIC project – INR 3bn, 3) Hammer missile –INR2.4bn, 4) platform terminal INR 2.3bn, 5) EW systems – Shakti INR 1.3bn, 6) Naval order INR 1bn.
- Other expenses were higher due to provision of LD's (INR 1,320mn vs INR 540mn YoY).
- Exports- Major products exported include Medical electronics, PR module, compass etc.
- Order book breakup- Defence-85.85%, Non defence 11.3% , exportsc.2%.
- BEL is not directly involved in the Pinaka project but is planning to supply some subsystems required by the lead agencies overseeing the initiative.
- Su-30 upgrade program, BEL is planning to supply with various advanced subsystems, including radar, electronic warfare (EW) systems, and radio and communication systems
- Indian Railways has allotted BEL an 18-month timeline to develop a prototype for the Kavach system
- Capex for FY25 to be c. INR 8bn.

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	1,53,138	1,76,462	2,01,694	2,41,495	2,92,736	
Sales Growth	8.9%	15.2%	14.3%	19.7%	21.2%	
Other Operating Income	0	0	0	0	0	
Total Revenue	1,53,138	1,76,462	2,01,694	2,41,495	2,92,736	
Cost of Goods Sold/Op. Exp	89,025	98,088	1,05,659	1,38,860	1,68,323	
Personnel Cost	21,094	22,977	24,667	27,440	30,820	
Other Expenses	9,926	14,921	21,386	16,905	20,492	
EBITDA	33,092	40,476	49,982	58,291	73,101	
EBITDA Margin	21.6%	22.9%	24.8%	24.1%	25.0%	
EBITDA Growth	4.0%	22.3%	23.5%	16.6%	25.4%	
Depn. & Amort.	3,802	4,079	4,124	4,459	4,736	
EBIT	29,291	36,397	45,857	53,833	68,365	
Other Income	2,336	3,600	7,558	7,981	8,947	
Finance Cost	49	148	70	72	72	
PBT before Excep. & Forex	31,578	39,849	53,346	61,741	77,239	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	31,578	39,849	53,346	61,741	77,239	
Taxes	8,089	9,782	13,146	15,435	19,310	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	23,489	30,067	40,200	46,306	57,930	
Adjusted Net Profit	23,489	30,067	40,200	46,306	57,930	
Net Margin	15.3%	17.0%	19.9%	19.2%	19.8%	
Diluted Share Cap. (mn)	7,309.8	7,309.8	7,309.8	7,309.8	7,309.8	
Diluted EPS (INR)	3.2	4.1	5.5	6.3	7.9	
Diluted EPS Growth	13.7%	28.0%	33.7%	15.2%	25.1%	
Total Dividend + Tax	10,960	13,160	16,082	20,838	26,068	
Dividend Per Share (INR)	1.5	1.8	2.2	2.9	3.6	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	31,578	39,849	53,346	61,741	77,239	
Depn. & Amort.	3,802	4,079	4,124	4,459	4,736	
Net Interest Exp. / Inc. (-)	-1,720	-2,463	-5,646	72	72	
Inc (-) / Dec in WCap.	15,498	-21,179	-2,376	-4,839	-7,830	
Others	479	417	11,161	0	0	
Taxes Paid	-8,024	-9,150	-14,130	-15,435	-19,310	
Operating Cash Flow	41,612	11,552	46,480	45,998	54,908	
Capex	-5,461	-5,621	-6,471	-7,000	-7,000	
Free Cash Flow	36,151	5,931	40,009	38,998	47,908	
Inc (-) / Dec in Investments	-43,145	33,441	-52,417	0	0	
Others	0	0	0	0	0	
Investing Cash Flow	-48,606	27,820	-58,889	-7,000	-7,000	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-10,233	-12,424	-14,615	-20,838	-26,068	
Inc / Dec (-) in Loans	0	0	0	0	0	
Others	-556	-714	-128	-72	-72	
Financing Cash Flow	-10,789	-13,138	-14,743	-20,910	-26,141	
Inc / Dec (-) in Cash	-17,783	26,234	-27,152	18,088	21,768	
Opening Cash Balance	30,157	74,991	38,642	1,09,681	1,27,769	
Closing Cash Balance	74,991	80,090	1,09,681	1,27,769	1,49,537	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	1,20,491	1,36,455	1,61,426	1,86,894	2,18,755	
Share Capital	2,437	7,310	7,310	7,310	7,310	
Reserves & Surplus	1,18,054	1,29,146	1,54,116	1,79,584	2,11,446	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	0	0	0	0	0	
Def. Tax Liab. / Assets (-)	-6,207	-5,034	-5,742	-5,742	-5,742	
Total - Equity & Liab.	1,14,284	1,31,422	1,55,684	1,81,152	2,13,014	
Net Fixed Assets	33,825	35,133	36,500	39,041	41,305	
Gross Fixed Assets	49,943	55,624	60,194	67,194	74,194	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	20,104	24,107	28,231	32,690	37,426	
Capital WIP	3,986	3,616	4,538	4,538	4,538	
Investments	15,542	6,644	7,678	7,678	7,678	
Current Assets	2,78,925	3,03,734	3,41,637	4,05,702	4,86,442	
Inventories	55,396	64,062	74,076	88,659	1,07,470	
Sundry Debtors	61,034	70,220	73,622	88,150	1,06,854	
Cash & Bank Balances	74,991	80,090	1,09,681	1,27,769	1,49,537	
Loans & Advances	1,338	2,514	3,116	3,970	4,812	
Other Current Assets	86,166	86,849	81,142	97,154	1,17,769	
Current Liab. & Prov.	2,14,009	2,14,089	2,30,131	2,71,269	3,22,411	
Current Liabilities	33,663	33,197	36,937	43,006	52,131	
Provisions & Others	1,80,346	1,80,893	1,93,194	2,28,263	2,70,280	
Net Current Assets	64,916	89,645	1,11,506	1,34,433	1,64,031	
Total - Assets	1,14,284	1,31,422	1,55,684	1,81,152	2,13,014	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
Net Margin		15.3%	17.0%	19.9%	19.2%	19.8%
Asset Turnover (x)		1.3	1.4	1.4	1.4	1.4
Leverage Factor (x)		1.0	1.0	1.0	1.0	1.0
RoE		20.5%	23.4%	27.0%	26.6%	28.6%

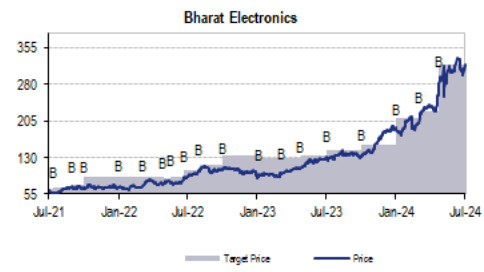
Key Ratios		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
BV/Share (INR)		16.5	18.7	22.1	25.6	29.9
ROIC		57.8%	68.9%	73.7%	84.5%	90.8%
ROE		20.5%	23.4%	27.0%	26.6%	28.6%
Net Debt/Equity (x)		-0.6	-0.6	-0.7	-0.7	-0.7
P/E (x)		99.9	78.0	58.4	50.7	40.5
P/B (x)		19.5	17.2	14.5	12.6	10.7
EV/EBITDA (x)		68.6	56.0	44.8	38.1	30.1
EV/Sales (x)		14.8	12.8	11.1	9.2	7.5
Debtor days		145	145	133	133	133
Inventory days		132	133	134	134	134
Creditor days		102	89	89	86	87

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Apr-21	Buy	50	
23-Jun-21	Buy	67	33.3
9-Aug-21	Buy	70	5.0
29-Sep-21	Buy	73	4.8
29-Oct-21	Buy	90	22.7
31-Jan-22	Buy	90	0.0
3-Apr-22	Buy	90	0.0
24-May-22	Buy	87	-3.7
14-Jun-22	Buy	92	5.8
21-Jul-22	Buy	105	14.5
30-Aug-22	Buy	117	11.1
31-Oct-22	Buy	135	15.8
2-Feb-23	Buy	130	-3.7
3-Apr-23	Buy	130	0.0
24-May-23	Buy	135	3.8
31-Jul-23	Buy	145	7.4
1-Nov-23	Buy	155	6.9
31-Jan-24	Buy	210	35.5
1-Apr-24	Buy	225	7.1
22-May-24	Buy	320	42.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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