

Bharat Electronics Ltd: Solid margin amid topline miss; Q2 rebound likely

July 31, 2025 | CMP: INR 386 | Target Price: INR 500

Expected Share Price Return: 29.5% | Dividend Yield: 1.5% | Potential upside: 31.0%

BUY

Sector View:  
Positive

Change in Estimates	✓
Change in Target Price	✗
Change in Recommendation	✗

Company Info	
BB Code	BHE IN EQUITY
Face Value (INR)	1.0
52 W High/Low (INR)	436/240
Mkt Cap (Bn)	INR 2,8244 / \$32.2
Shares o/s (Mn)	7,310
3M Avg. Daily Volume	2,70,73,436

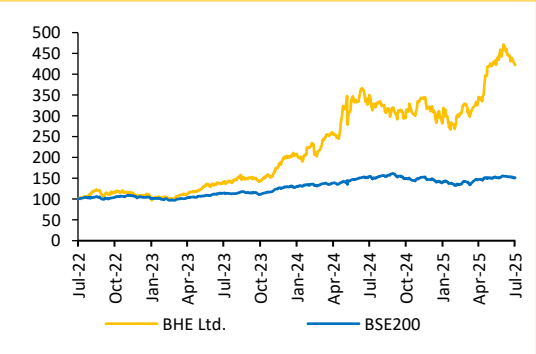
Change in CIE Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	280.5	280.5	0.0	336.6	333.8	0.8
EBITDA	80.2	80.2	0.0	101.0	96.8	4.3
EBITDAM %	28.6	28.6	0bps	30.0	29.0	100Bps
PAT	64.0	63.8	0.3	82.3	76.8	7.2
EPS	8.8	8.7	0.6	11.3	10.5	7.3

Actual vs CIE Estimates			
INR Bn	Q1FY26	CIE Est.	Dev. (%)
Revenue	44.4	50.4	(12.0)
EBITDA	12.4	11.2	10.1
EBITDAM %	27.9	22.3	562bps
PAT	9.6	9.1	5.1

Key Financials				
INR Bn	FY25	FY26E	FY27E	FY28E
Revenue	237.7	280.5	336.6	403.9
YoY Growth (%)	17.3%	18.0%	20.0%	20.0%
EBITDA	68.3	80.2	101.0	122.0
EBITDAM (%)	28.8%	28.6%	30.0%	30.2%
Adjusted PAT	53.2	64.0	82.3	99.8
EPS	7.3	8.8	11.3	13.7
ROE %	29.3	30.5	35.6	38.6
ROCE %	35.6	38.7	44.7	48.3
PE(x)	53	44	34	28
Price to BV (x)	14.1	12.8	11.5	10.3

Shareholding (%)			
	Jun-25	Mar-25	Dec-24
Promoters	51.14	51.14	51.41
Flls	18.56	17.55	17.34
Dlls	20.60	20.87	20.94
Public	9.70	10.43	10.58

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE 200	51.4	32.8	(2.0)
BHE	321.5	197.1	21.5



QR-SAM\* – Quick reaction Surface to Air Missile

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BHE-Business Insight

Multi-year visibility; INR 74,859 Cr order book 3.1x FY25 revenue

In our view, BHE is not just a proxy to India's defence indigenisation story -- it is the nucleus of it. With a healthy order book of INR 74,859 Cr (~3.1x FY25 revenue), scalable execution model, strategic tech investments, and margin tailwinds, BHE offers a structural growth opportunity over the next 3–5 years. The company has guided for FY26 order inflows of INR 27,000+ Cr (excluding QRSAM), which could rise to INR 30,000+ Cr if QRSAM is awarded by Q4FY26—further strengthening growth visibility.

We forecast a 19.3% revenue CAGR over FY25-28E and margin expansion of 140bps, driven by next-gen systems like QRSAM, Akash NG, and Akash Prime. The management has guided USD 120 Mn+ exports in FY26 to Europe, the Middle East, and Africa, signaling BHE's growing relevance in global security. Investments in AI, drone warfare, and cybersecurity push BHE beyond traditional into future-tech domains.

In our view, BHE is a structural defence compounder with longevity, cash generation, and deep strategic moats -- well aligned with India's multi-decade defence capex supercycle.

Decent performance with margin expansion

- Revenue for Q1FY26 up by 4.6% YoY & down by 51.5% QoQ at INR 44.4 Bn (vs CIE est. INR 50.5 Bn).
- EBIDTA for Q1FY26 up by 30.6% YoY and down by 56.0% QoQ at INR 12.4 Bn (vs CIE est. INR 11.5 Bn). The EBITDA Margin stood at 27.9%, improved by 555bps YoY (vs CIE est. 22.3%).
- PAT for Q1FY26 up by 23.0% YoY and down 54.7% QoQ at INR 9.6 Bn (vs CIE est. INR 9.1 Bn). The PAT Margin improved by 323bps YoY, reaching 21.6% (vs CIE est. 18.1%).

**View & Valuation:** We maintain our positive stance on BHE, underpinned by its robust long-term growth visibility, supported by a healthy orderbook and strong order pipeline. The govt's continued thrust on defence indigenization remains a key structural tailwind. We revise our estimates based on the average FY27/28E EPS and maintain our TP at INR 500, valuing the stock at 40x forward earnings. We reiterate our 'BUY' rating, reflecting confidence in BHE's consistent execution and sustained growth potential.

Particulars	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Revenue	44,397	42,436	4.6	91,496	(51.5)
Material Exp	20,761	23,151	(10.3)	47,489	(56.3)
Gross Profit	23,637	19,285	22.6	44,007	(46.3)
Employee Exp	6,965	6,666	4.5	7,661	(9.1)
Other Exp	4,289	3,137	36.7	8,185	(47.6)
EBITDA	12,383	9,482	30.6	28,161	(56.0)
Depreciation	1,208	1,077	12.2	1,376	(12.2)
EBIT	11,175	8,405	33.0	26,785	(58.3)
Other Income	1,633	2,036	(19.8)	1,946	(16.1)
Interest Cost	14	12	22.0	59	(75.4)
PBT	12,794	10,429	22.7	28,673	(55.4)
Tax	3,187	2,619	21.7	7,463	(57.3)
RPAT	9,607	7,810	23.0	21,210	(54.7)
Adj EPS (INR)	1.3	1.1	22.5	2.9	(54.4)

Margin Analysis	Q1FY26	Q1FY25	YoY (bps)	Q4FY25	QoQ (bps)
Gross Margin (%)	53.2	45.4	779.4	48.1	514.2
Emp. % of Sales	15.7	15.7	(2.0)	8.4	731.5
Other % of Sales	9.7	7.4	226.8	8.9	71.5
EBITDA Margin (%)	27.9	22.3	554.6	30.8	(288.7)
Tax Rate (%)	24.9	25.1	-20.5	26.0	-111.6
APAT Margin (%)	21.6	18.4	323.4	23.2	(154.3)

## Management Call - Highlights

### Guidance

- Revenue growth target of more than 15%+ for FY26
- EBITDA margin guidance of more than 27%
- Order inflow target of INR27,000+ crore excluding QRSAM, potentially INR30,000+ crore if QRSAM order comes in Q4
- R&D investment commitment of INR 1,600+ Cr
- CapEx guidance of INR 1,000+ Cr
- Export target of \$120+ Mn USD
- Management expressed confidence in achieving all these targets

### AI Strategy

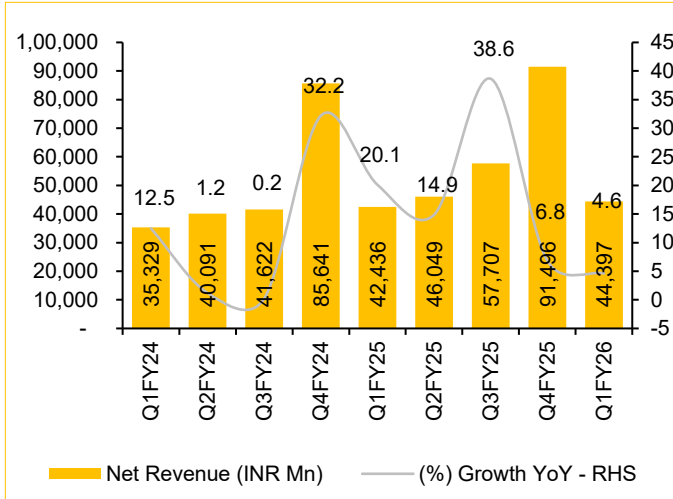
- BHE is working closely with Indian defence forces to embed AI/ML in modern warfare systems.
- The company has set up AI incubation centres for the Army and Navy, collaborating with users and startups.
- AI/ML modules are already operational in BHE's C4I (Command, Control, Communication, Computers & Intelligence) programs.
- Additional AI/ML capabilities are in development to expand future battlefield applications.
- BHE is confident in building indigenous, cutting-edge AI/ML solutions without foreign dependency.
- BHE is strengthening its technical team with new hires focused on AI, ML, and quantum technologies.

### Order Book Position

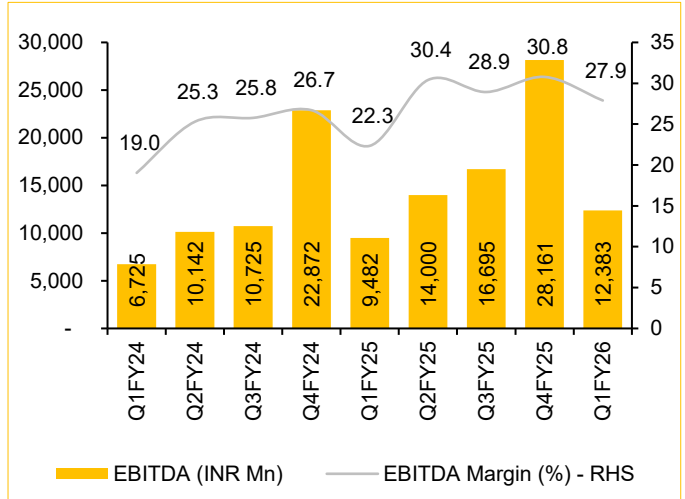
- Order book stood at INR 74,859 Cr as of July 1, 2025, with an additional INR 2,600 Cr in fresh orders post that.
- Key orders include: LR-SAM (~INR 5,000 Cr), Fuses (~INR 4,500 Cr), Akash Army (~INR 3,000 Cr), BMP Upgrade (~INR 3,000 Cr), Ashwini Arudhra Radha (~INR 2,500 Cr), Shakti EW System (~INR 2,000 Cr)
- 90% of the order book is nomination-based, rest from competitive bids.
- FY26 order inflow guidance is INR 27,000+ Cr, excluding QRSAM; may rise to INR 30,000+ Cr if QRSAM is awarded in Q4.
- ~INR 14,000 Cr of the order book is executable beyond 3 years, with the majority executable within 3 years.

### Labor Costs

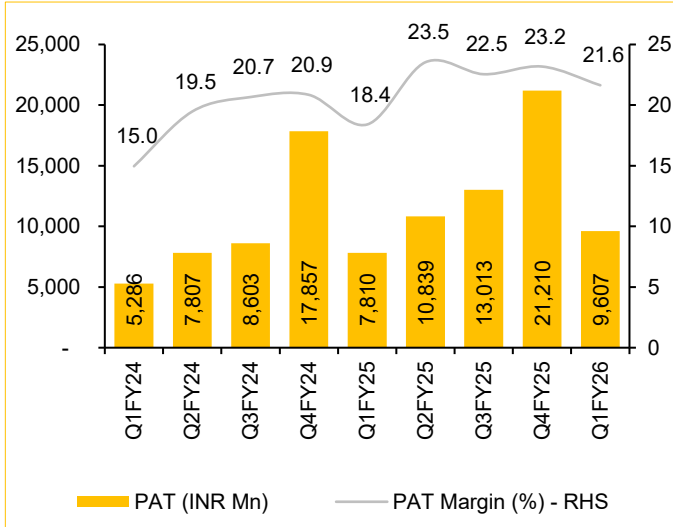
- BHE anticipates minimal impact from the 8th Pay Commission in FY28, with offset expected from revenue growth.
- Provisions for increased employee costs will begin from FY27, ensuring fiscal prudence.
- The company plans to expand headcount from ~9,000 to 10,000+ in the coming year.
- 70% of new hires will be R&D and tech-focused, including 200 scientists from top institutes.

**Revenue up by 4.6% YoY basis**

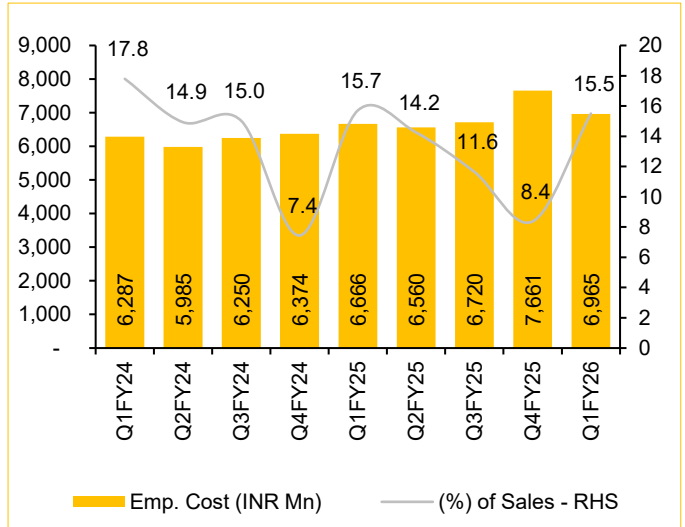
Source: BHE, Choice Institutional Equities

**EBITDA Margin improved by 555bps on YoY basis**

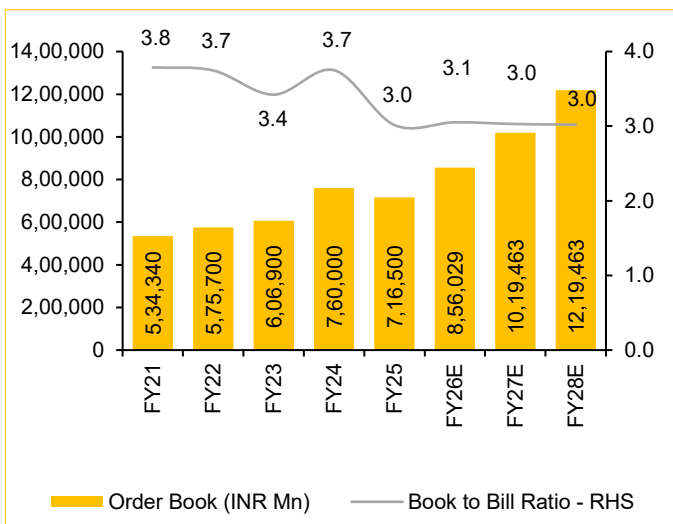
Source: BHE, Choice Institutional Equities

**Healthy PAT growth at 23.0% YoY**

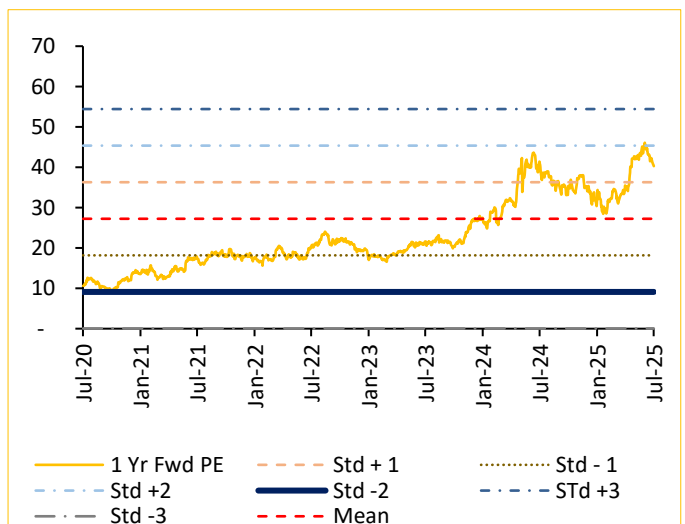
Source: BHE, Choice Institutional Equities

**Optimized employee cost**

Source: BHE, Choice Institutional Equities

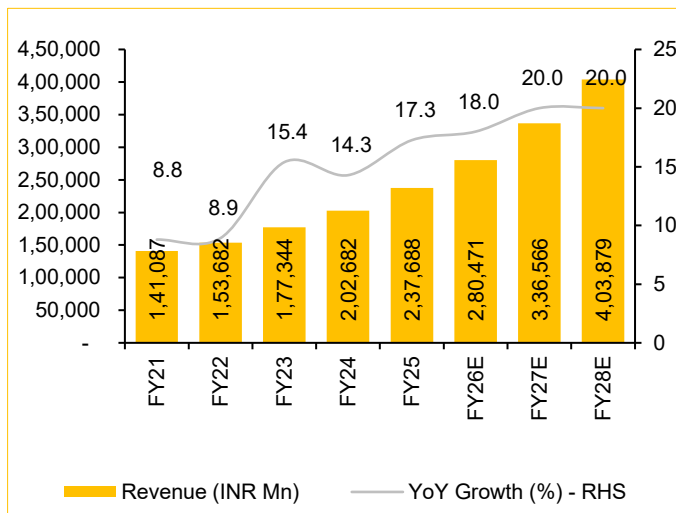
**Order book to remain solid**

Source: BHE, Choice Institutional Equities

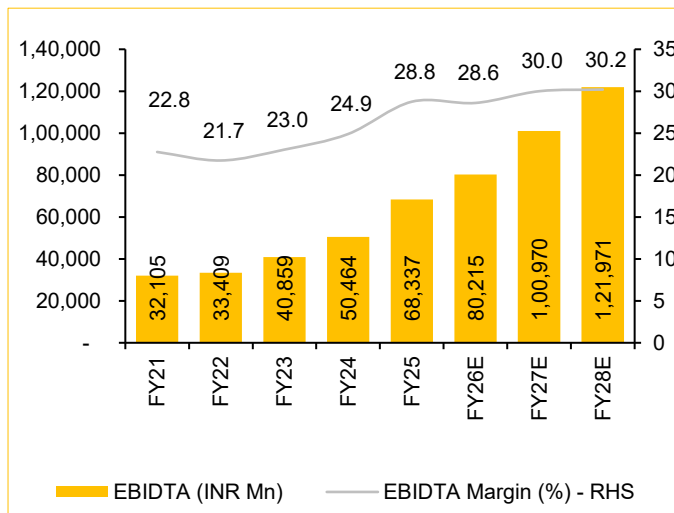
**One year forward PE band**

Source: BHE, Choice Institutional Equities

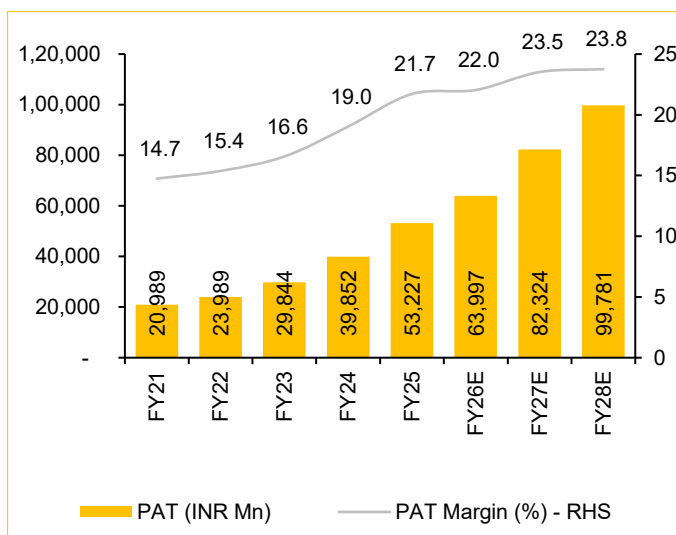
\*All figures are in INR Million

**Revenue expected to grow ~19% CAGR FY24-28E**

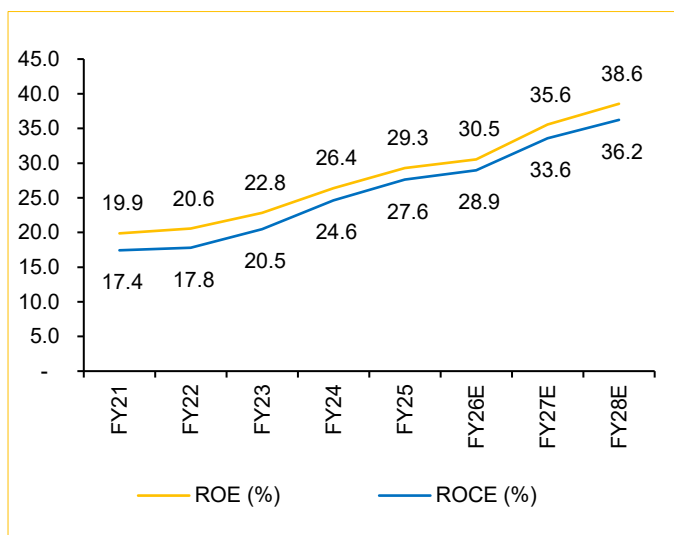
Source: BHE, Choice Institutional Equities

**EBITDA Margin to improve led by better mix**

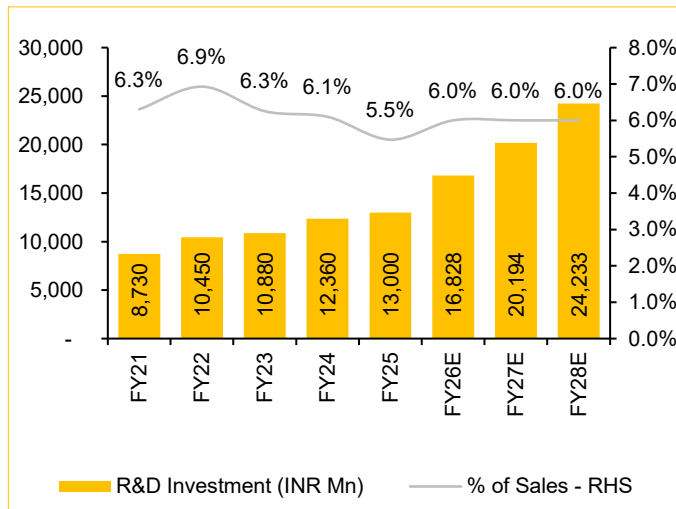
Source: BHE, Choice Institutional Equities

**PAT growth to remain robust**

Source: BHE, Choice Institutional Equities

**ROE & ROCE trend**

Source: BHE, Choice Institutional Equities

**Strong investment in R&D exp to build futuristic platforms**

Source: BHE, Choice Institutional Equities

\*All figures are in INR Million

Income Statement (Consolidated in INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Revenue	2,02,682	2,37,688	2,80,471	3,36,566	4,03,879
Gross Profit	96,919	1,15,815	1,35,748	1,65,590	1,97,901
EBITDA	50,464	68,337	80,215	1,00,970	1,21,971
Depreciation	4,432	4,674	5,149	5,430	6,001
EBIT	52,734	71,087	84,883	1,09,003	1,32,126
Interest Expense	71	97	112	135	162
Other Income	6,701	7,424	9,816	13,463	16,155
PBT	52,662	70,990	84,770	1,08,868	1,31,964
Reported PAT	39,852	53,227	63,997	82,324	99,781
EPS	5.5	7.3	8.8	11.3	13.7

Source: BHE, Choice Institutional Equities

Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
<b>Growth Ratios</b>					
Revenue (%)	14.3	17.3	18.0	20.0	20.0
EBITDA (%)	23.5	35.4	17.4	25.9	20.8
PAT (%)	33.5	33.6	20.2	28.6	21.2
<b>Margin Ratios</b>					
EBITDA margins (%)	24.9	28.8	28.6	30.0	30.2
PAT Margins (%)	19.0	21.7	22.0	23.5	23.8
<b>Performance Ratios</b>					
OCF/EBITDA (x)	0.9	0.1	0.9	0.8	0.8
OCF/IC (%)	88.1	5.6	61.9	65.7	65.8
ROE (%)	26.4	29.3	30.5	35.6	38.6
ROCE (%)	32.3	35.6	38.7	44.7	48.3
<b>Turnover Ratio (Days)</b>					
Inventory	134	140	135	134	134
Debtors	133	140	135	132	132
Payables	67	51	60	58	58
Cash Conversion Cycle (Days)	200	229	210	208	208
<b>Financial Stability Ratios</b>					
Net debt to Equity (x)	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)
Net debt to EBITDA (x)	(2.2)	(1.4)	(1.3)	(1.2)	(1.0)
Interest Cover (x)	739	734	757	810	818
<b>Valuation Metrics</b>					
Fully diluted shares (Mn)	7,310	7,310	7,310	7,310	7,310
Price (INR)	385	385	385	385	385
Market Cap (INR Bn)	2,814	2,814	2,814	2,814	2,814
PE (x)	70.6	52.9	44.0	34.2	28.2
EV (INR Bn)	2,703	2,718	2,707	2,697	2,686
EV/EBITDA (x)	54	40	34	27	22
Book Value (INR/Share)	22	27	30	33	37
Price to BV (x)	17.2	14.1	12.8	11.5	10.3
EV/OCF (x)	58	463	39	32	28

Source: BHE, Choice Institutional Equities

Balance Sheet (Consolidated in INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
<b>Source of fund</b>					
Net Worth	1,63,444	1,99,928	2,19,127	2,43,825	2,73,759
Minority Interest	-	-	-	-	-
Deferred Tax	55	1,016	1,198	1,438	1,726
Total Debt	-	-	-	-	-
Other Liabilities & Provisions	11,501	9,849	11,622	13,947	16,736
Trade Payables	37,063	33,388	42,263	53,482	64,178
Other current liabilities	1,76,259	1,56,741	1,84,954	2,21,945	2,66,334
Provisions	6,945	7,397	8,729	10,474	12,569
<b>Total Liabilities</b>	<b>3,95,267</b>	<b>4,08,319</b>	<b>4,67,893</b>	<b>5,45,110</b>	<b>6,35,301</b>
<b>Application of fund</b>					
Net Fixed Assets	27,885	32,045	37,897	43,467	48,467
Capital Work in Progress	4,564	4,770	5,628	6,754	8,105
Investments	5,307	5,816	6,863	8,236	9,883
Other Non current asset	16,882	17,109	20,188	24,226	29,071
Cash & Bank Balance	1,10,566	95,451	1,06,332	1,16,933	1,27,396
Loans & Advances & Other Assets	78,727	68,361	80,666	96,799	1,16,159
Other Current Assets	1,51,337	1,84,767	2,10,320	2,48,695	2,96,221
<b>Total Assets</b>	<b>3,95,267</b>	<b>4,08,319</b>	<b>4,67,893</b>	<b>5,45,110</b>	<b>6,35,301</b>

Source: BHE, Choice Institutional Equities

Cash Flow Statement (Consolidated in INR Mn)

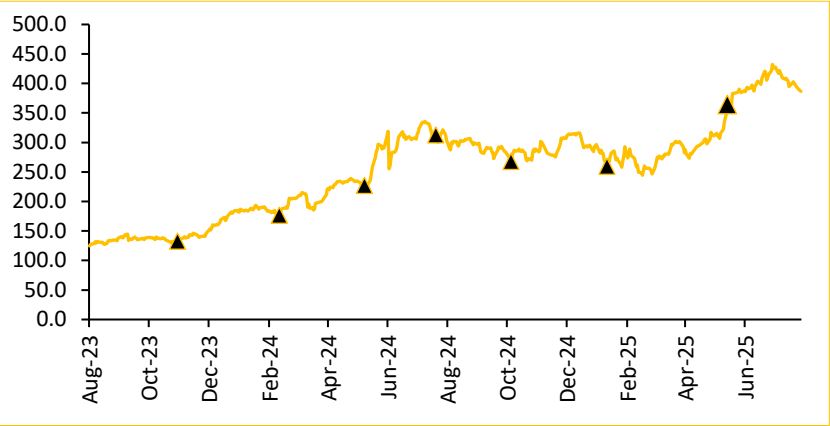
Cash Flows (INR Bn)	FY24	FY25	FY26E	FY27E	FY28E
Cash Flows From Operations	46,595	5,866	69,820	83,335	96,237
Cash Flows From Investing	-59,239	6,128	-15,985	-17,536	-18,843
Cash Flows From Financing	-14,750	-16,964	-42,954	-55,197	-66,931

Source: BHE, Choice Institutional Equities

DuPont Analysis	FY24	FY25	FY26E	FY27E	FY28E
Tax Burden	75.7%	75.0%	75.5%	75.6%	75.6%
Interest Burden	99.9%	99.9%	99.9%	99.9%	99.9%
EBIT Margin	26.0%	29.9%	30.3%	32.4%	32.7%
Asset Turnover	0.5	0.6	0.6	0.6	0.6
Equity Multiplier	2.6	2.2	2.2	2.4	2.5
<b>ROE</b>	<b>26.4</b>	<b>29.3</b>	<b>30.5</b>	<b>35.6</b>	<b>38.6</b>

Source: BHE, Choice Institutional Equities

Historical Price Chart: Bharat Electronics Limited (BHE)



Date	Rating	Target Price
Nov 01, 2023	ADD	151
Feb 01, 2024	ADD	196
May 23, 2024	BUY	308
Jul 30, 2024	BUY	346
Oct 29, 2024	BUY	350
Jan 31, 2025	BUY	370
May 19, 2025	BUY	420
June 24, 2025	BUY	500
Jul 30, 2025	BUY	500

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CHOICE RATING DISTRIBUTION & METHODOLOGY

<b>Large Cap*</b>	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
<b>Mid &amp; Small Cap*</b>	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
<b>Other Ratings</b>	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
<b>Sector View</b>	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in statis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

\*Large Cap: More Than INR 20,000Cr Market Cap  
\*Mid & Small Cap: Less Than INR 20,000Cr Market Cap

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