

# Bharat Electronics Ltd.

**BUY**

Sector: Defence Electronics

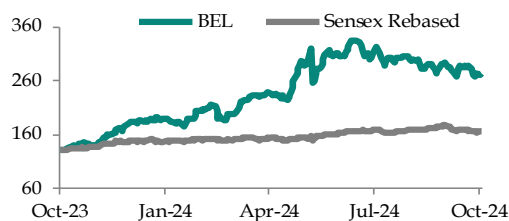
30<sup>th</sup> October 2024

<b>Key Changes</b>	<b>Target</b> ▲	<b>Rating</b> ▲	<b>Earnings</b> ▲	<b>Target</b>	<b>Rs.323</b>
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Large Cap	BHE:IN	80,369	BEL	500049	12 Months
				<b>CMP</b>	<b>Rs.284</b>
				<b>Return</b>	<b>+14.0%</b>

Data as of: 29-10 2024

Company Data			
Market Cap (Rs. cr.)	2,07,305		
52 Week High — Low (Rs.)	340 - 131		
Enterprise Value (Rs. cr)	2,06,217		
Outstanding Shares (Rs cr)	731		
Free Float (%)	49.1		
Dividend Yield (%)	0.1%		
6m average volume (cr)	2.3		
Beta	0.92		
Face value (Rs)	1.0		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	51.1	51.1	51.1
FII's	17.6	17.4	17.3
MFs/Institutions	22.6	20.6	20.2
Public	8.7	10.9	11.4
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-13.1%	17.0%	108.0%
Absolute Sensex	-2.1%	7.3%	25.5%
Relative Return	-11.0%	9.7%	82.5%

\*over or under performance to benchmark index



Y.E March (cr)	FY24A	FY25E	FY26E
Sales	20,169	23,428	27,881
Growth (%)	14.3	16.2	19.0
EBITDA	4,998	5,763	6,915
EBITDA Margin (%)	24.8	24.6	24.8
PAT Adjusted	4,020	4,743	5,20
Growth (%)	33.7	18.0	18.5
Adjusted EPS	5.5	6.5	7.7
Growth (%)	33.7	18.0	18.5
P/E	51.6	43.7	36.9
P/B	4.3	3.6	2.9
EV/EBITDA	41.3	35.2	29.0
ROE (%)	27.1	26.8	26.2
D/E	0.0	0.0	0.0

Author: Anil R - Sr. Research Analyst

## Better product mix boost margins...outlook intact

**Bharat Electronics Ltd. (BEL)** is a Navaratna enterprise with a 37% market share in Indian defence electronics. BEL's core capabilities are in radar & weapons systems, defence communication, & electronic warfare.

- In Q2FY25, revenue was up by 15% YoY, which was largely in line with our estimates due to better execution. While net profit surged by 34.3% YoY.
- EBITDA grew by 38% YoY, and margin was up by 510bps YoY to 30.3%, led by a better product mix and lower cost.
- The current order backlog is at Rs.74,595cr (3.2x FY25E sales), providing strong visibility for the next 3–4 years.
- The Q2 order inflow was at ~Rs.2,473cr, while the total order inflow guidance for FY25E & FY26E is maintained at ~Rs.50,000cr. If QRSAM fruitations, additional Rs.25-30,000cr orders will be added to order inflow over FY25E-26E.
- Margin profile in the range of ~24-25%, while profitability is anticipated to grow by 18.2% CAGR over FY24-26E.

## Outlook & Valuation

We reiterate our positive outlook on BEL given the government's thrust in domestic manufacturing, increasing electronics share in defence, its market leadership position, a strong order backlog, and healthy margin profile. Given upgrade in our estimates and sharp correction in stocks prices, **we value BEL at P/E to 42x on FY26E EPS and maintain upgrade to BUY from Hold rating with a target price of Rs.323.**

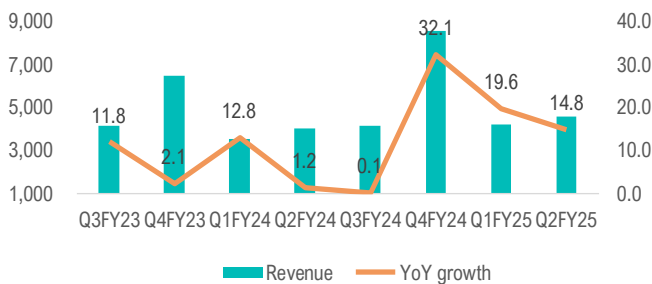
## Quarterly Financials Consol.

Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	4,583	3,993	14.8	4,199	9.2	8,782	7,504	17.0
EBITDA	1,389	1,004	38.2	937	48.2	2,325	1,669	39.3
EBITDA margin %	30.3	25.2	514bps	22.3	798bps	26.5	22.2	424bps
EBIT	1,285	904	42.2	837	53.6	2,122	1,467	44.7
PBT	1,451	1,073	35.2	1,037	39.9	2,488	1,777	40.0
Reported PAT	1,091	812	34.3	776	40.6	1,867	1,343	39.0
Adjusted PAT	1,091	812	34.3	776	40.6	1,867	1,343	39.0
EPS (Rs)	1	1	34.3	1.1	40.6	3	2	39.0

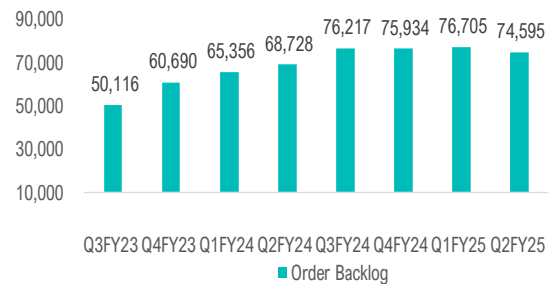
## Key Concall Highlights

- FY25 order inflow guidance remain intact at Rs.25,000cr despite a marginal slowdown in H1FY25.
- Some of order expected include, Radars Rs.2,500cr, Electronic warfare suite (EW) Rs.2,000cr, Atulya radar-Rs.2,000cr and Sakthi phase 4 Rs.2,000cr.
- Gross margins for H1FY25 was at 49.5%, however management continue to maintain FY25 at 42% which seems to be conservative.
- While EBITDA margins guidance was at 25%, we have factored in gross margins at 46.5% and EBITDA margins at 24.6% for FY25.
- Order book position is expected to be significantly higher, with QRSAM (Quick Reaction Surface to Air Missile) alone potentially contributing INR 25,000 crore to INR 30,000 crore
- CAPEX plans for FY25 amount to Rs.800cr.

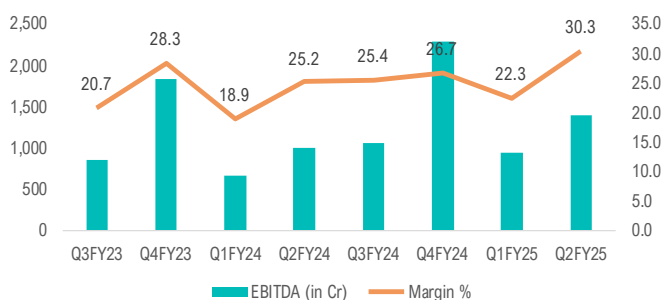
### Revenue



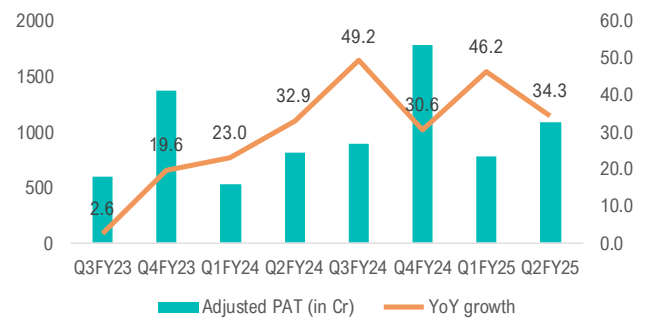
### Order backlog



### EBITDA



### PAT



## Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	23,406	27,407	23,428	27,881	0.1	1.7
EBITDA	5,641	6,715	5,763	6,915	2.2	3.0
Margins (%)	24.1	24.5	24.6	24.8	50 bps	30 bps
Adj. PAT	4,608	5,446	4,743	5,620	2.9	3.2
EPS	6.3	7.4	6.5	7.7	3.0	3.9



## Standalone Financials

### Profit & Loss

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Sales</b>	<b>15,314</b>	<b>17,646</b>	<b>20,169</b>	<b>23,428</b>	<b>27,881</b>
% change	8.9	15.2	14.3	16.2	19.0
<b>EBITDA</b>	<b>3,309</b>	<b>4,048</b>	<b>4,998</b>	<b>5,763</b>	<b>6,915</b>
% change	4.0	22.3	23.5	15.3	20.0
Depreciation	380	408	412	426	446
<b>EBIT</b>	<b>2,929</b>	<b>3,640</b>	<b>4,586</b>	<b>5,337</b>	<b>6,469</b>
Interest	5	15	7	4	3
Other Income	234	360	756	991	1,028
<b>Share of profit</b>	-	-	-	-	-
<b>PBT</b>	<b>3,158</b>	<b>3,985</b>	<b>5,335</b>	<b>6,324</b>	<b>7,494</b>
% change	7.6	26.2	33.9	18.6	18.5
Tax	809	978	1315	1581	1873
Tax Rate (%)	25.6	24.5	24.6	25.0	25.0
<b>Reported PAT</b>	<b>2,349</b>	<b>3,007</b>	<b>4,020</b>	<b>4,743</b>	<b>5,620</b>
Adj.*	-	-	-	-	-
Adj. PAT	<b>2,349</b>	<b>3,007</b>	<b>4,020</b>	<b>4,743</b>	<b>5,620</b>
% change	13.7	28.0	33.7	18.0	18.5
No. of shares (cr)	244	731	731	731	731
<b>Adj EPS (Rs)</b>	<b>3.2</b>	<b>4.1</b>	<b>5.5</b>	<b>6.5</b>	<b>7.7</b>
% change	13.7	28.0	33.7	18.0	18.5
<b>DPS (Rs)</b>	<b>4.2</b>	<b>1.7</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

### Balance Sheet

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	1,239	3,864	1,149	4,277	6,688
Accounts Receivable	6,103	7,022	7,362	11,233	13,368
Inventories	5,567	6,412	7,408	9,100	10,198
Other Cur. Assets	14,983	13,075	18,245	13,486	16,049
Investments	1,554	664	768	768	768
Gross Fixed Assets	4,435	4,958	5,434	6,264	7,104
Net Fixed Assets	2,455	2,596	2,699	3,103	3,497
CWIP	399	362	454	230	250
Intangible Assets	530	556	497	497	497
Def. Tax (Net)	621	503	574	574	574
Other Assets					
<b>Total Assets</b>	<b>33,450</b>	<b>35,054</b>	<b>39,156</b>	<b>43,268</b>	<b>51,889</b>
Current Liabilities	4,574	4,923	5,287	5,838	6,934
Provisions	2,216	1,462	1,650	2,567	3,055
Debt Funds	52	59	60	45	20
Other Liabilities	14,624	15,028	16,076	15,453	18,356
Equity Capital	244	731	731	731	731
Reserves & Surplus	11,741	12,851	15,351	18,633	22,792
Shareholder's Fund	11,984	13,582	16,082	19,364	23,523
<b>Total Liabilities</b>	<b>33,450</b>	<b>35,054</b>	<b>39,156</b>	<b>43,268</b>	<b>51,889</b>
BVPS	49	56	66	79	97

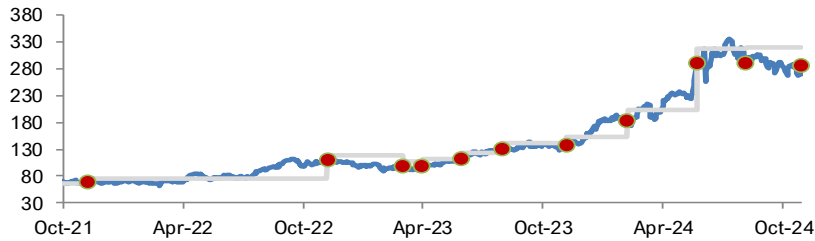
### Cash Flow

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Deprn.	2,349	3,007	4,020	4,743	5,620
Non-cash adj.	262	266	866	(561)	(579)
Changes in W.C	1,550	(2,118)	(238)	41	(1,308)
<b>C.F. Operation</b>	<b>4,161</b>	<b>1,155</b>	<b>4,648</b>	<b>4,224</b>	<b>3,733</b>
Capital exp.	(546)	(562)	(642)	(606)	(860)
Change in inv.	(4,485)	3,005	(5,775)	-	-
Other invest.CF	178	341	533	991	1,028
<b>C.F - Investment</b>	<b>(4,861)</b>	<b>2,782</b>	<b>(5,889)</b>	<b>385</b>	<b>168</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(54)	(70)	(13)	(19)	(28)
Dividends paid	(1,023)	(1,242)	(1,462)	(1,462)	(1,462)
Other finance.CF	(50)	(11)	(3)	-	-
<b>C.F - Finance</b>	<b>(1,077)</b>	<b>(1,312)</b>	<b>(1,474)</b>	<b>(1,481)</b>	<b>(1,490)</b>
Chg. in cash	(1,777)	2,625	(2,715)	3,128	2,411
<b>Closing cash</b>	<b>1,239</b>	<b>3,864</b>	<b>1,149</b>	<b>4,277</b>	<b>6,688</b>

### Ratios

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	21.6	22.9	24.8	24.6	24.8
EBIT margin (%)	19.1	20.6	22.7	22.8	23.2
Net profit mgn.(%)	15.3	17.0	19.9	20.2	20.2
ROE (%)	20.6	23.5	27.1	26.8	26.2
ROCE (%)	19.7	24.3	26.1	26.7	26.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	150.8	135.7	130.2	144.8	161.0
Inventory (days)	215.7	222.9	238.7	240.4	236.5
Payables (days)	188.1	176.7	176.4	162.0	156.6
Current ratio (x)	4.1	4.8	4.9	4.5	4.6
Quick ratio (x)	1.6	2.2	1.6	2.7	2.9
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.6	3.8	3.9	4.0	4.2
Total asset T.O (x)	0.5	0.5	0.5	0.6	0.6
Int. covge. ratio (x)	603.9	246.1	653.2	1334.4	2156.2
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	13.5	11.5	10.2	8.7	7.2
EV/EBITDA (x)	62.3	50.3	41.3	35.2	29.0
P/E (x)	88.3	68.9	51.6	43.7	36.9
P/BV (x)	5.8	5.1	4.3	3.6	2.9

## Recommendation Summary (last 3 years)



Dates	Rating	Target
08.Nov.21	BUY	76
07.Nov.22	HOLD	119
02.Mar.23	HOLD	107
31.Mar.23	BUY	112
30-May-23	BUY	123
31.July.23	HOLD	141
07.Nov.23	HOLD	152
08.Feb.24	BUY	204
24.May.24	HOLD	318
06.Aug.24	HOLD	320
30.Oct.24	BUY	321

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

#### Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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