

Bharat Electronics Ltd.

January 31, 2025

CMP: INR 278 | Target Price: INR 370 | Potential Upside: 32.5%

BUY

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)	340/171
Mkt Cap (Bn)	INR 2,039 / \$23.5
Shares o/s (Mn)	7,309.8
3M Avg. Daily Volume	1,81,55,484

Change in CEBPL Estimates

INR Bn	FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	285	279	2.1	339	329	3.0
EBITDA	72	69	3.6	85	81	4.6
EBITDAM %	25.1	24.8	35.8bps	25.1	24.7	37.5bps
PAT	57	55	3.4	68	65	4.3
EPS	7.8	7.5	3.4	9.2	8.9	4.3

Actual vs Consensus

INR Bn	Q3FY25A	Consensus Est.	Dev. %
Revenue	57.7	50.2	14.9
EBITDA	16.7	11.6	44.0
EBITDAM %	28.9	23.1	584bps
PAT	13.1	9.4	39.4

Key Financials

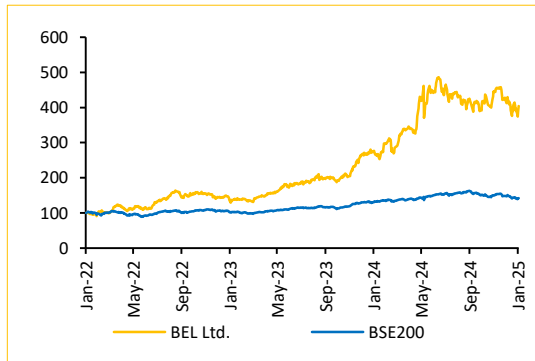
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	177.3	202.7	241.2	284.6	338.7
YoY Growth (%)	15.4	14.3	19.0	18.0	19.0
EBITDA	40.9	50.5	59.7	71.5	85.1
EBITDAM (%)	23.0	24.9	24.8	25.1	25.1
Adjusted PAT	29.8	39.9	47.2	56.9	67.6
EPS	4.1	5.5	6.5	7.8	9.2
RoE %	21.5	24.4	26.7	29.4	31.7
ROCE %	26.4	28.2	30.9	34.3	37.2
PE(x)	68.3	51.2	43.1	35.8	30.2
Price to BV (x)	14.7	12.5	11.5	10.5	9.6

Shareholding Pattern (%)

	Dec-24	Sep-24	Jun-24
Promoters	51.41	51.14	51.14
FIIIs	17.34	17.27	17.34
DIIIs	20.94	20.22	20.62
Public	10.58	11.37	10.82

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 200	42.1	39.5	8.9
Bharat Electronics Ltd.	304.1	213.5	48.4



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Big BEAT from BHE in the beaten down sector; execution prowess shines

- Revenue for Q3FY25 came at INR 57.7 Bn (vs CEBPL est. INR 49.6 Bn), up 39.3% YoY and up 25.3% QoQ to, led by robust orders execution.
- EBITDA up 55.7% YoY and 19.3% QoQ to INR 16.7 Bn (vs CEBPL est. INR 11.2 Bn), the margin stood at 28.9%, improved 304bps YoY (vs CEBPL est. of 22.5% YoY) due to cost control measures.
- PAT jumped significantly by 51.3% to INR 130.1 Bn (vs CEBPL est. INR 7.6 Bn).
- The management has upgraded its guidance, forecasting strong revenue growth exceeding 16%, supported by expanding gross margins of 42-44% and a healthy EBITDA range of 23-25%.
- LRSAM, Weapon Locating Radar (WLR), ISECS system, Shakti EW System, Akash, and Civic infrastructure project are the major orders which were executed in Q3FY25.

A strong order pipeline of INR 711Bn (3.1x TTM Sales) provides revenue visibility over the next few years: BHE has set a target of INR 250 Bn in order wins for FY25. It has so far secured orders worth INR 110 Bn in 9MFY25, with 85-90% of these originating from the defence sector. We believe BHE to meet the target of INR 250 Bn. Looking ahead, BHE anticipates significant growth in new orders, ranging between INR 300-400 Bn in FY26. It has several notable upcoming projects, including the QR-SAM project worth INR 250-300 Bn (expected by March 2026), MR-SAM, MF-STAR & NGC Corvettes valued at INR 140-150 Bn (expected in FY26), and Akash Prime along with other smaller projects worth over INR 50 Bn. Additionally, BHE diversification into non-defence sectors such as metro projects, civil aviation, and IT infrastructure further strengthens its growth.

Consistent execution to drive profitability growth: We expect BHE is projected to achieve 19.8% CAGR revenue growth over FY24-27, driven by a robust order book, efficient project execution, and contributions from both the defence and non-defence sectors, and export orders leading to overall profitability. Additionally, we expect EBITDAM to remain in the range bound from 24.9% in FY24 to 25.2% in FY27. We anticipate EPS is expected to grow at an accelerated pace, increasing from INR 5.5 in FY24 to INR 9.24 in FY27 due to cost optimization measures and long-term contracts. We do not expect significant changes in WC days. It remains the same in the range of FY24 (~200 days).

View & Valuation: We maintain a positive outlook on BHE given its strong long-term growth prospects, supported by a robust order backlog and pipeline, driven by the government's emphasis on defence indigenization. The company's strong financials and return ratios, along with consistent margin improvement, reinforce our confidence in its financial performance. We revise our estimates of FY26/27 EPS estimates by 3.4%/4.3% and maintain our rating to 'BUY' with a revised TP of INR 370, valuating it at 40x of FY27E EPS.

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Particulars	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net Sales (incl OI)	57,707	41,622	38.6	46,049	25.3
Material Exp	29,814	21,316	39.9	21,419	39.2
Gross Profit	27,893	20,306	37.4	24,631	13.2
Employee Exp	6,720	6,250	7.5	6,560	2.4
Other Exp	4,479	3,331	34.5	4,071	10.0
EBITDA	16,695	10,725	55.7	14,000	19.3
Depreciation	1,109	1,075	3.2	1,112	(0.2)
EBIT	15,586	9,650	61.5	12,888	20.9
Other Income	1,864	1,674	11.3	1,578	18.1
Interest Cost	13	5	158.8	13	-
PBT	17,436	11,320	54.0	14,452	20.6
EO Items	-	121	-	-	-
Tax	4,424	2,838	55.9	3,613	22.4
RPAT	13,013	8,481	53.4	10,839	20.1
APAT	13,116	8,603	52.5	10,928	20.0
Adj EPS (Rs)	1.8	1.2	52.5	1.5	20.0

Margin Analysis	Q3FY25	Q3FY24	YoY (bps)	Q2FY25	QoQ (bps)
Gross Margin (%)	48.3	48.8	(45.0)	53.5	(515.1)
Emp. % of Sales	11.6	15.0	(37.1)	14.2	(260.1)
Other % of Sales	7.8	8.0	(2.4)	8.8	(107.9)
EBITDA Margin (%)	28.9	25.8	316.3	30.4	(147.1)
Tax Rate (%)	25.4	25.1	29.5	25.0	36.8
APAT Margin (%)	22.7	20.7	206.0	23.7	(100.2)

Management Call - Highlights

Revised Guidance :

- Revenue growth is expected to be slightly above 16%.
- Gross Margin projected in the range of 42-44%.
- EBITDA Margin estimated between 23-25%.

Order Book & Pipeline :

- Current Order Book is INR 711 Bn crore as of January 1st, 2025.
- The management has guided target order inflow worth INR 250 Bn in FY25; INR 110 Bn already achieved.
- Expects major upcoming orders QR SAM INR 250-300 Bn (expected by March 2026). MR-SAM & MF STAR & NGC Corvettes INR 140-150 Bn (expected in FY26). Akash Prime & several smaller projects worth INR 50 Bn crore in the pipeline.
- FY26 New Order Outlook is estimated between INR 250-400 billion, driven by armed forces' modernization & indigenization efforts.
- Significant amount from P-75 & P-75I Submarine Electronics is expected but smaller than QR SAM/MR-SAM.

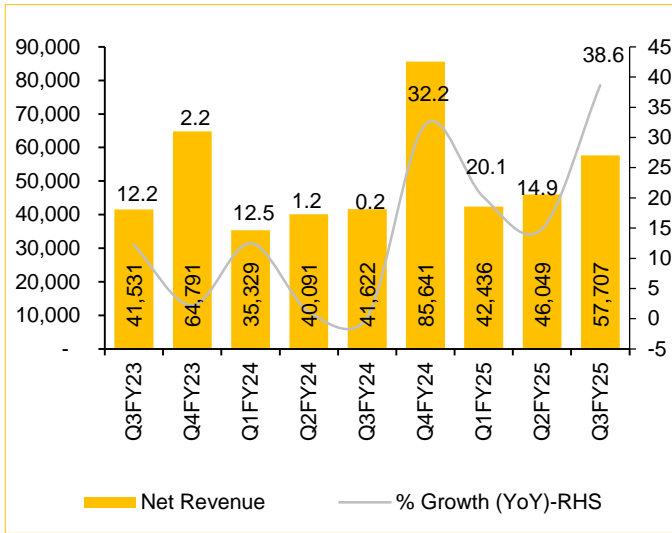
Operational Highlights :

- defence Sector Contribution: 85-90% of total orders, reinforcing strong government-driven defence modernization.
- The management has targeted from defence Revenue 90% of total revenue and Non-defence & Exports: 10% (8% non-defence, 3% exports). To Increase non-defence revenue to 15%-20%.
- Major Executed Projects in Q3: LRSAM, Weapon Locating Radar (WLR), ISECS System, Shakti EW System, ADC&RS (Akash program), and a civilian infrastructure project.
- Delayed in LCA Tejas aircraft is unaffected the companies revenue as electronic modules are supplied separately.
- The company is leading in high-end anti-drone systems, secured BSF contract, exploring export deals Anti-Drone Systems.
- QR SAM Execution: Initial execution in 18-24 months, full completion in ~4 years.
- Increasing localization in radar, fuses, and defence electronics to support Indigenization & R&D.
- INR 600 crore provisions made for doubtful debts & penalties.

Future Growth Drivers :

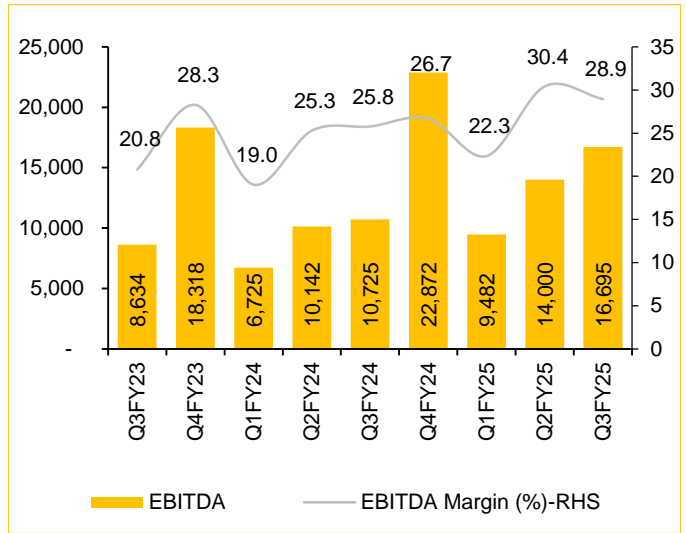
- Indigenization & Margin Expansion: Higher localization, export orders, and service revenue expected to enhance profitability.
- Strong R&D & New Technologies: Focus on radars, electronic warfare, AI-driven defence solutions, and anti-drone systems.
- Exploring International & Domestic collaborations partnerships in electronic fuses, semiconductors, cybersecurity, and homeland security.

Exhibit 1: Net Revenue jumped by 38.6% YoY basis



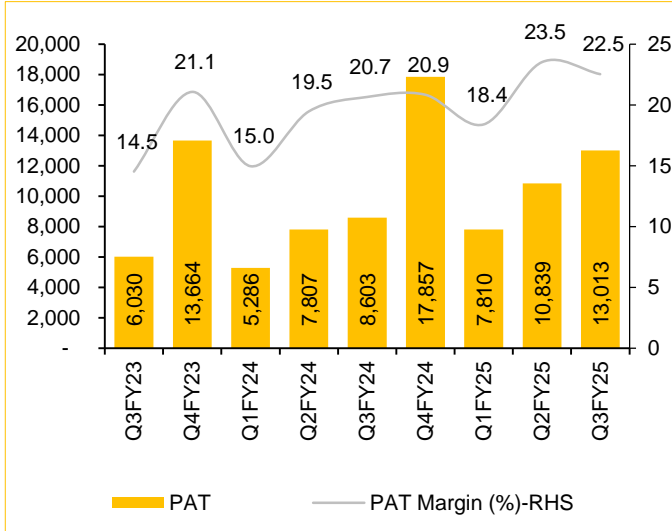
Source: Company, CEBPL

Exhibit 2: EBITDA Margins improved by 304bps



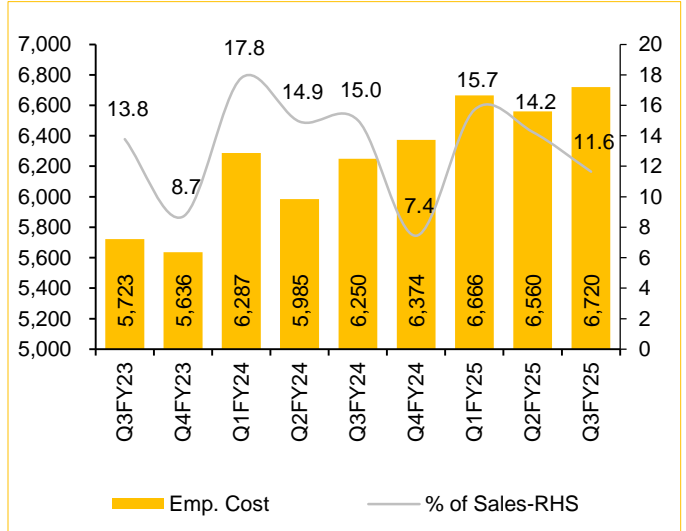
Source: Company, CEBPL

Exhibit 3: Healthy PAT growth of 51.3% YoY



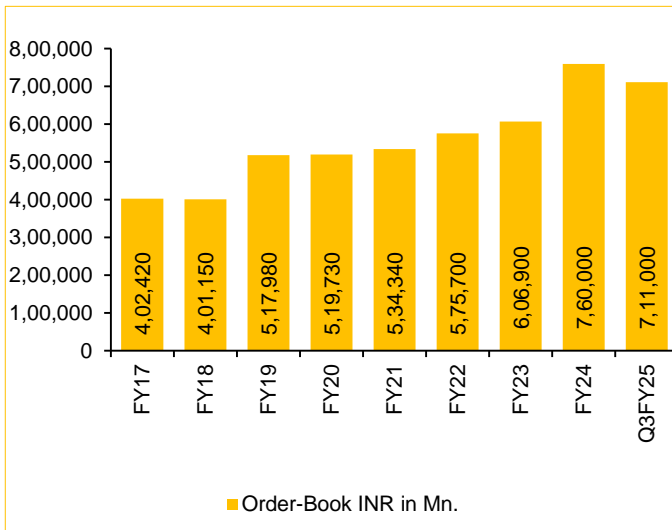
Source: Company, CEBPL

Exhibit 4: Optimized employee costs drive margin growth



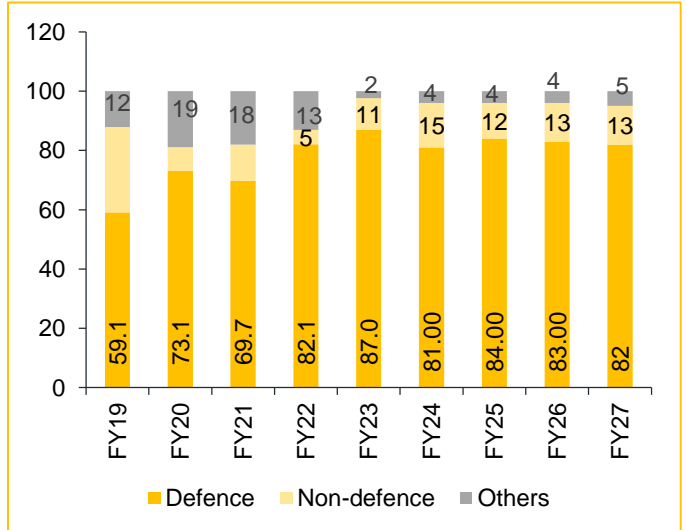
Source: Company, CEBPL

Exhibit 5: Order book continued to remain high



Source: Company, CEBPL

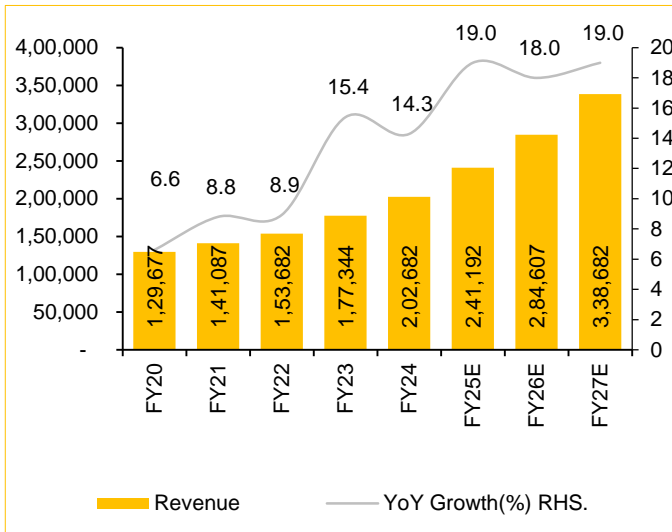
Exhibit 6: Revenue Mix in (%)



Source: Company, CEBPL

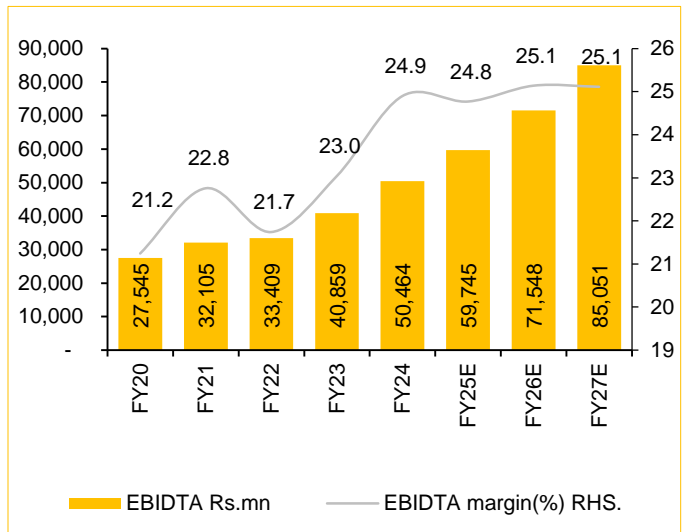
*All figures are in INR Million

Exhibit 7: Revenue expected to grow 19.8% CAGR FY24-27



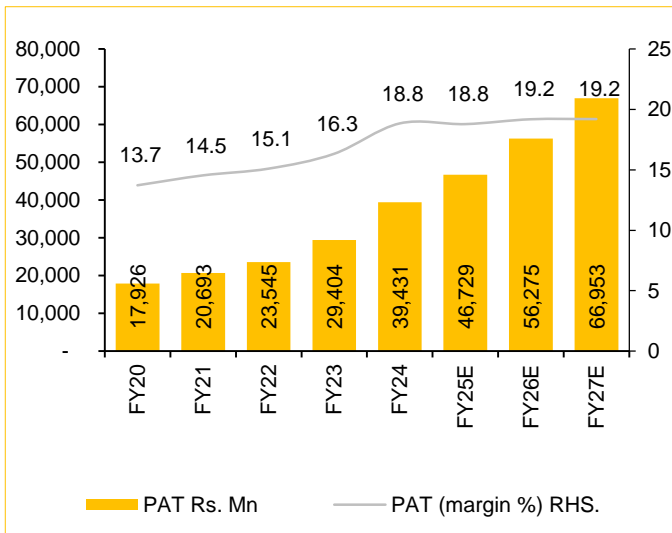
Source: Company, CEBPL

Exhibit 8: EBITDA Margins to improve led by better mix



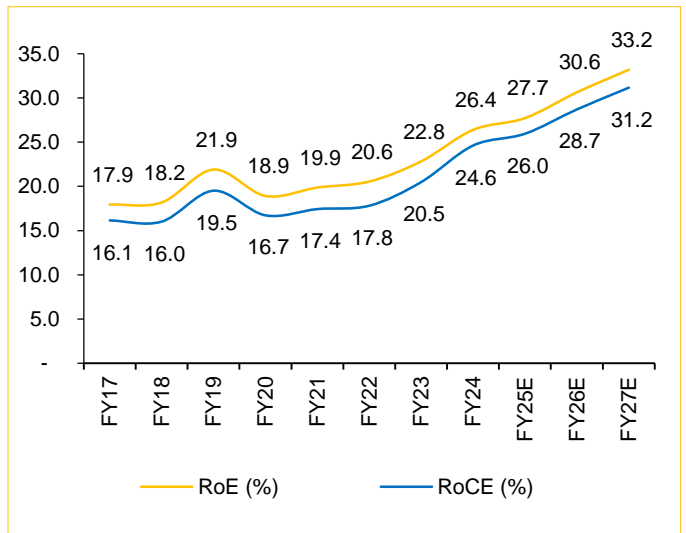
Source: Company, CEBPL

Exhibit 9: PAT growth remain robust



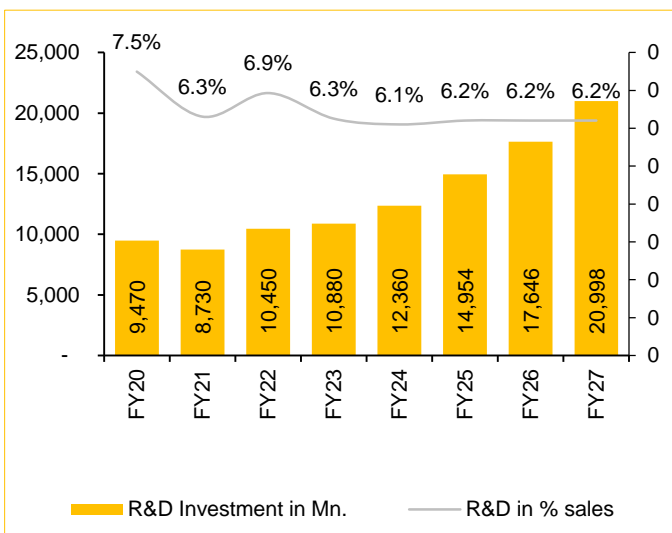
Source: Company, CEBPL

Exhibit 10: Roe & Roce



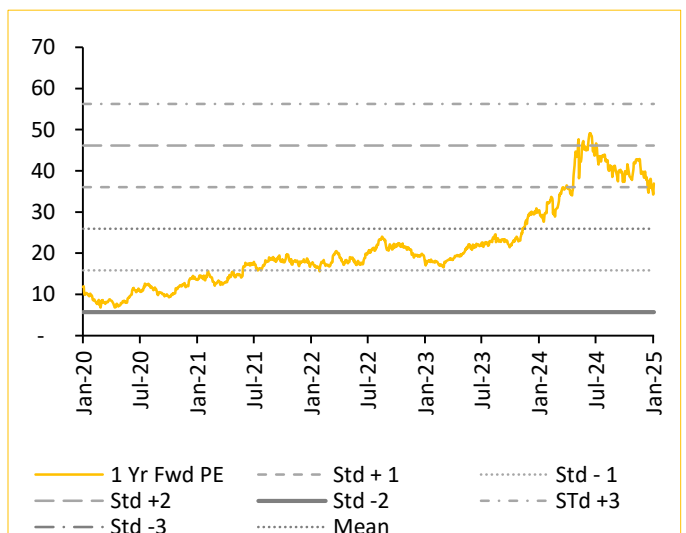
Source: Company, CEBPL

Exhibit 11: Sustained R&D investment



Source: Company, CEBPL

Exhibit 12: One year forward PE band



Source: Company, CEBPL

*All figures are in INR Million

Income statement (Consolidated in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,77,344	2,02,682	2,41,192	2,84,607	3,38,682
Gross profit	79,069	96,919	1,11,267	1,31,122	1,55,872
EBITDA	40,859	50,464	59,745	71,548	85,051
Depreciation	4,288	4,432	4,963	5,192	5,752
EBIT	36,571	46,032	54,782	66,356	79,298
Interest expense	150	71	80	60	72
Other Income	2,808	6,701	7,707	8,863	10,192
Reported PAT	29,404	39,431	46,729	56,275	66,953
Minority Interest	-	-	-	-	-
EPS	4.1	5.5	6.5	7.8	9.2

Source: Company, CEBPL

Balance sheet (Consolidated in INR Mn.)

Balance Sheet (Rs. Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Net worth	1,38,616	1,63,444	1,77,138	1,93,664	2,13,357
Deferred tax	-	55	-	-	-
Total debt	-	-	-	-	-
Other liabilities & provisions	10,609	11,501	12,011	13,212	13,433
Total Net Worth & liabilities	1,49,225	1,75,000	1,89,149	2,06,876	2,26,790
Net Fixed Assets	26,752	27,885	29,422	31,229	32,477
Capital Work in progress	3,612	4,564	4,000	4,150	4,151
Investments	2,008	5,307	5,307	5,307	5,307
Cash & bank balance	80,000	1,10,566	1,05,262	1,04,093	1,05,990
Loans & Advances & other assets	22,033	16,882	24,119	28,461	33,868
Net Current Assets	94,820	1,20,363	1,26,301	1,37,729	1,50,987
Total Assets	1,49,225	1,75,000	1,89,149	2,06,876	2,26,790
Capital Employed	1,38,616	1,63,444	1,77,138	1,93,664	2,13,357
Invested Capital	58,616	52,878	71,876	89,571	1,07,367
Net Debt	(80,000)	(1,10,566)	(1,05,262)	(1,04,093)	(1,05,990)
FCFF	11,144	40,078	42,002	51,951	66,690

Source: Company, CEBPL

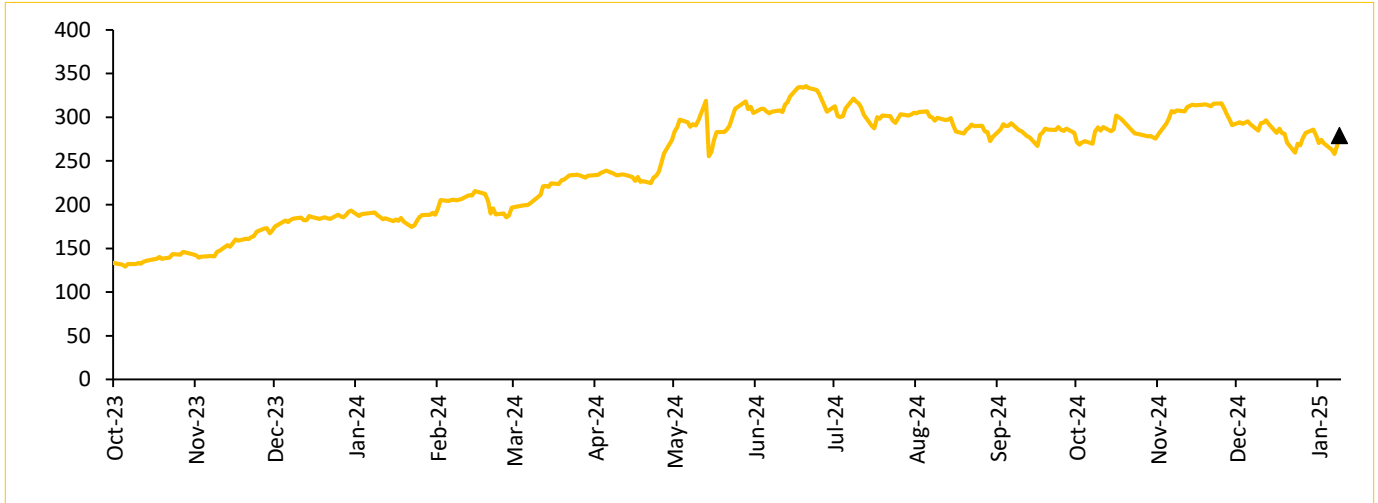
Cash Flow Statement (Consolidated in INR Mn.)

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	17,031	46,595	48,502	58,951	73,690
Capex	(5,888)	(6,517)	(6,500)	(7,000)	(7,000)
FCF	11,144	40,078	42,002	51,951	66,690
CFI	26,908	(63,665)	(13,174)	(11,491)	(12,409)
CFF	(13,129)	(14,750)	(32,660)	(38,608)	(47,110)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenue	15.4	14.3	19.0	18.0	19.0
EBITDA	22.3	23.5	18.4	19.8	18.9
Margin ratios (%)					
EBITDA	23.0	24.9	24.8	25.1	25.1
PAT	16.8	19.7	19.6	20.0	19.9
Performance Ratios (%)					
OCF/EBITDA (X)	0.4	0.9	0.8	0.8	0.9
OCF/IC	29.1	88.1	67.5	65.8	68.6
RoE	21.5	24.4	26.7	29.4	31.7
ROCE	26.4	28.2	30.9	34.3	37.2
Turnover Ratios (Days)					
Inventory	133	135	136	136	137
Debtor	144	144	145	145	146
Payables	69	70	75	75	76
Cash Conversion Cycle	31	26	32	43	48
Financial Stability ratios (x)					
Net debt to Equity	(0.6)	(0.7)	(0.6)	(0.5)	(0.5)
Net debt to EBITDA	(2.0)	(2.2)	(1.8)	(1.5)	(1.2)
Interest Cover	245	645	685	1,106	1,101
Valuation metrics					
Fully diluted shares (Mn)	7,310	7,310	7,310	7,310	7,310
Price (INR)	279	279	279	279	279
Market Cap(INR Mn)	20,38,697	20,38,697	20,38,697	20,38,697	20,38,697
PE(x)	68	51.2	43.1	35.8	30.2
EV (INR Mn)	19,58,697	19,28,131	19,33,435	19,34,605	19,32,707
EV/EBITDA (x)	48	38	32	27	23
Book value (Rs/share)	19	22	24	26	29
Price to BV (x)	14.7	12.5	11.5	10.5	9.6
EV/OCF	115	41	40	33	26

Source: Company, CEBPL

Historical Price Chart: Bharat Electronics Limited



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