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Company Update and TP change

Defence

Target price: Rs150

Target price revision
Rs150 from Rs140

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	51.1	51.1	51.1
Institutional investors	42.3	42.5	42.0
MFs and others	21.2	20.6	20.1
FIs/Insurance	3.6	4.4	5.3
FIIIs	17.5	17.5	16.6
Others	6.6	6.4	6.9

Source: BSE India

ESG disclosure score

Year	2021	2022	Chg
ESG score	35.6	36.2	0.6
Environment	17.6	17.6	0.0
Social	25.5	27.4	1.8
Governance	63.6	63.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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Bharat Electronics

BUY

Maintained

Rs125

Order inflow on expected lines

Bharat Electronics (BEL) has won orders worth Rs59bn thus far in Q1FY24. This is in line with the management's guidance of Rs200bn of order inflow in FY24 and implies orderbook at the end of Q1FY24 is likely to be higher compared to Q4FY23 level of Rs606.9bn. We expect orders for fuses (for long-term requirement of Indian Army) and Naval platforms during the course of FY24.

In our view, with its finger in the pie in almost all the upcoming major orders over the next few years, BEL is the best play in defence space. We expect the execution of the recently won orders to commence from FY25, resulting in comfortable bill-to-book position in FY24. Taking cognisance of robust order inflow as well as book-to-bill position, we raise our P/E multiple to 27x (earlier 25x), corresponding to 3.5 deviations (earlier 3 deviations) above the past 10-year mean. We maintain BUY rating on BEL stock with a revised TP of Rs150 (earlier Rs140) and continue to recommend it as our top pick in defence space.

- **Order inflow in line with expectations.** BEL has received orders worth Rs59bn thus far in FY24. These include: 1) Orders for 3rd and 4th regiments of improved Akash Weapon System (AWS) upgrades from BDL worth Rs39.1bn (48.3% of total order value of Rs81bn). The improvements incorporated in AWS include high altitude operation, simultaneous engagement of multiple threats over 360 degrees, missiles fitted with RF seeker and reduced foot print; and 2) orders worth Rs19.8bn for Shakti EW & Sanket MK III (Naval Systems) - our estimate at Rs10bn, GBMES & GBUV Com Jammer systems, MKBT systems, IFF-MK-XII crypto modules and upgradation of SDP & Display of Rohini radar, training system for CMS P15B & CAMC for P28 etc. Going ahead, we believe orders from Naval platforms and fuses for Indian Army (long term) will potentially result in an order inflow of Rs200bn. Also, the execution of existing orders is likely to maintain revenue growth at 17% p.a. through to FY25.
- **Significant opportunities for orderbook accretion.** Besides near-term opportunity of Rs200bn, we believe MRSAM, QRSAM and ATGM orders in the medium term could add another Rs200bn. In the long term, we believe orders from Tejas Mk1A and Mk2 as well as next-generation corvettes are likely to keep orderbook robust. In our view, BEL is significantly immune to potential delays or lower spending as it has exposure in most major upcoming orders. Hence, the bill-to-book ratio of 3.5x (at the end of FY23) is expected to improve further. Besides, improving indigenisation and fast developing ecosystem for its products imply margins are likely to improve and working capital cycle may remain in check.

Market Cap	Rs914bn/US\$11.1bn
Reuters/Bloomberg	BAJE.BO/BHE IN
Shares Outstanding (mn)	7,309.8
52-week Range (Rs)	127/74
Free Float (%)	48.9
FII (%)	16.6
Daily Volume (US\$/'000)	18,170
Absolute Return 3m (%)	35.1
Absolute Return 12m (%)	65.3
Sensex Return 3m (%)	10.5
Sensex Return 12m (%)	24.3

Year to March	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	1,53,682	1,77,344	2,07,365	2,42,406
Net Income (Rs mn)	24,002	29,862	33,705	40,755
Dil. EPS (Rs)	3.3	1.4	4.6	5.6
% Chg YoY	14.3	(58.5)	238.6	20.9
P/E (x)	38.1	91.8	27.1	22.4
CEPS (Rs)	3.8	1.6	5.3	6.3
EV/E (x)	24.4	64.5	17.4	14.3
Dividend Yield (%)	-	-	3.2	3.2
RoCE (%)	25.7	21.2	23.6	27.0
RoE (%)	19.5	21.5	23.6	26.4

Please refer to important disclosures at the end of this report

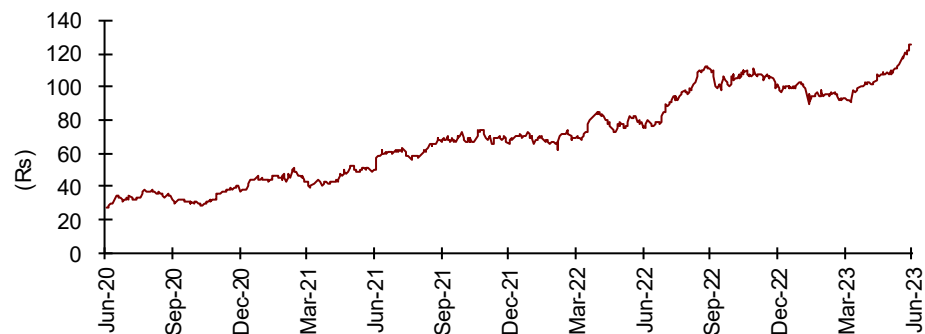
- **Outlook and valuations: Sound prospects:** We believe BEL is set to gain both from steady execution and orderbook accretion. Taking cognisance of steady order inflow, we perceive lower risk to our FY25E EPS of 5.6x (5% higher than street estimate). Hence, we raise our FY25E P/E multiple to 27x (earlier 25x). Consequently, our revised TP works out to Rs150 (earlier Rs140), implying 20% upside on CMP. Our revised P/E multiple corresponds to 3.5 deviations (earlier 3 deviations) above the 10-year mean. BEL is one of the strategic DPSUs that is set to receive >Rs1,100bn of order inflow over the next 5 years. We maintain BUY on BEL and recommend it as our top pick in defence space.

Key risks

Slower-than-expected orderbook build up and delay in execution could lead to lower revenue/margins.

Cashflow pressures can be a downside risk. We expect these pressures to moderate in medium term with ease in defence budgetary allocation. Also, lower-than-expected accretion in defence capital budget is a key risk – we believe the probability is low given the heightened external threat perception.

Price chart



Source: Bloomberg

Financial summary

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income	1,53,682	1,77,344	2,07,365	2,42,406
Operating Expenses	1,20,273	1,36,486	1,61,303	1,86,693
EBITDA	33,409	40,859	46,062	55,712
% margins	21.7	23.0	22.2	23.0
Depreciation & Amortisation	4,011	4,288	5,054	5,477
Gross Interest	51	150	153	153
Other Income	2,315	2,808	3,856	4,049
Recurring PBT	31,662	39,229	44,711	54,131
Less: Taxes	8,118	9,826	11,206	13,563
Add: Share of profit from associates	458	459	263	264
Recurring Net Income	24,002	29,862	33,705	40,755

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	2,33,495	3,00,477	3,17,976	3,37,525
of which cash & cash eqv.	98,317	1,53,502	1,58,364	1,64,980
Total Current Liabilities & Provisions	1,76,112	1,69,219	1,85,399	1,93,156
Net Current Assets	57,384	1,31,259	1,32,578	1,44,369
Investments	16,035	6,770	6,770	6,770
Strategic/Group	16,035	6,770	6,770	6,770
Other Marketable	-	-	-	-
Net Fixed Assets	26,753	29,629	29,970	29,493
Capital Work-in-Progress	10,060	8,549	10,910	11,001
Goodwill	13,321	9,486	9,486	9,486
Total Assets	1,23,552	1,85,693	1,89,713	2,01,120
Liabilities				
Borrowings	515	46,871	46,562	46,562
Deferred Tax Liability	15	29	29	29
Government Grants	-	-	-	-
Minority Interest	163	178	241	319
Equity Share Capital	2,437	7,310	7,310	7,310
Reserves & Surplus	1,20,423	1,31,307	1,35,572	1,46,901
Net Worth	1,22,859	1,38,616	1,42,882	1,54,211
Total Liabilities	1,23,552	1,85,693	1,89,713	2,01,120

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow	26,733	33,447	34,856	42,148
Working Capital Changes	15,339	(20,779)	3,544	(5,176)
Capital Commitments	(5,546)	(5,905)	(7,756)	(5,091)
Free Cashflow	36,527	6,764	30,644	31,881
Investing Cashflow	(48,717)	26,908	(3,836)	(964)
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(18)	-	(309)	-
Others	(10,253)	(12,541)	(29,393)	(29,393)
Extraordinary Items	-	-	-	-
Chg. in Cash	(16,916)	27,037	4,862	6,616

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	3.3	1.4	4.6	5.6
Diluted Recurring EPS	3.3	1.4	4.6	5.6
Recurring Cash EPS	3.8	1.6	5.3	6.3
Dividend per share (DPS)	-	-	4.0	4.0
Book Value per share (BVPS)	16.8	6.3	19.5	21.1
Growth Ratios (%)				
Operating Income	8.9	15.4	16.9	16.9
EBITDA	4.1	22.3	12.7	21.0
Recurring Net Income	14.3	24.4	12.9	20.9
Valuation Ratios (x)				
P/E	38.1	91.8	27.1	22.4
P/CEPS	32.6	80.3	23.6	19.8
P/BV	7.4	19.8	6.4	5.9
EV / EBITDA	24.4	64.5	17.4	14.3
EV / FCF	22.3	389.5	26.2	24.9
Operating Ratios (%)				
Raw Material/Sales	57.7	55.4	57.6	58.2
SG&A/Sales	6.7	8.5	8.0	7.7
Other Income / PBT	7.3	7.2	8.6	7.5
Effective Tax Rate	25.6	25.0	25.1	25.1
NWC / Total Assets	0.5	0.7	0.7	0.7
Inventory Turnover	1.6	1.5	1.6	1.6
Receivable (days)	-	-	0.1	0.1
Payable (days)	127.9	113.2	105.8	95.6
Asset Turnover	1.3	1.0	1.1	1.2
Net D/E Ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	15.6	16.8	16.3	16.8
RoCE	25.7	21.2	23.6	27.0
RoNW	19.5	21.5	23.6	26.4
Dividend Pay-out Ratio	40.6	97.9	86.8	71.7
EBITDA Margins	21.7	23.0	22.2	23.0

Source: Company data, I-Sec research

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