

October 31, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	143		140	
Sales (Rs.m)	2,06,515	2,38,309	2,06,515	2,40,148
% Chng.	-	(0.8)		
EBITDA (Rs.m)	45,367	53,596	45,367	54,009
% Chng.	-	(0.8)		
EPS (Rs.)	4.6	5.5	4.6	5.6
% Chng.	-	(0.8)		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,76,458	2,06,515	2,38,309	2,69,422
EBITDA (Rs. m)	40,472	45,367	53,596	61,940
Margin (%)	22.9	22.0	22.5	23.0
PAT (Rs. m)	30,063	33,842	40,232	46,658
EPS (Rs.)	4.1	4.6	5.5	6.4
Gr. (%)	28.0	12.6	18.9	16.0
DPS (Rs.)	0.6	2.5	2.5	3.1
Yield (%)	0.5	1.9	1.9	2.3
RoE (%)	23.5	23.6	24.8	25.2
RoCE (%)	28.5	28.6	30.2	30.7
EV/Sales (x)	5.1	4.3	3.7	3.3
EV/EBITDA (x)	22.1	19.6	16.5	14.2
PE (x)	32.4	28.8	24.2	20.9
P/BV (x)	7.2	6.4	5.6	4.9

Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.147 / Rs.87
Sensex / Nifty	63,875 / 19,080
Market Cap	Rs.974bn/ \$ 11,699m
Shares Outstanding	7,310m
3M Avg. Daily Value	Rs.2089.94m

Shareholding Pattern (%)

Promoter's	51.14
Foreign	17.35
Domestic Institution	24.83
Public & Others	6.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.7)	29.0	24.7
Relative	(0.7)	23.4	18.6

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Medium term outlook remains intact

Quick Pointers:

- Revenues ~Rs4bn were impacted due to spillover of execution to H2FY24, however management is confident of 15-17% revenue growth for FY24.
- Key large orders prospects for next 10-12 months stands at ~Rs70-75bn from Electronic warfare, equipment for shipbuilding, tanks upgrade etc.

Bharat Electronics (BEL) reported mixed quarterly performance with revenue growth of 1.2% YoY and EBITDA margins expanding 346bps YoY to 25.2%. Revenues were partly impacted due to spillover of executions worth Rs4bn to H2FY24. H1FY24 order inflows came in strong at ~Rs154bn, giving confidence to achieve its FY24 inflow guidance of Rs200bn+. Tender Pipeline for next 12 months comprises of 1) equipment's for shipbuilding programs with CSL & GRSE (Rs25bn) 2) Electronic warfare system (Rs20bn) and 3) tank upgrade programme (Rs30bn). H1FY24 exports revenue stood at US\$27mn, management targets for US\$90mn for FY24. Management maintained its FY24 revenue growth guidance of 15-17% and EBITDA margin of 21-23%.

We remain positive on long-term growth story of BEL given 1) strong order backlog & order pipeline 2) diversification in newer business verticals like, hydrogen fuel cell, EV batteries etc., 3) focus on export markets (Egypt, Malaysia etc.) and 4) govt's focus on product indigenization. The stock is currently trading at PE of 28.8x/24.2x/20.9 FY24/25E26E. We roll forward to Sep'25 number and maintain Accumulate rating on stock with TP of Rs143 (Rs140 earlier), valuing it at PE on 24x Sep'25E (25x FY25 earlier).

Gross margin expansion and higher other income drives PAT growth: Standalone revenue grew ~1.2% YoY to Rs~40bn (PLe ~Rs45.3bn) led by healthy order book execution. H1FY24, revenue grew by 6.3% YoY to Rs70.6bn. EBITDA grew 17.4% YoY to Rs10bn (PLe ~Rs10bn), with EBITDA margins expanding 346bps YoY to 25.2% (PLe 22.3%), mainly due to gross margin expansion (48.8% vs 43.3% in Q2FY23). H1FY24 EBITDA grew 21.9% YoY to Rs13.6bn, with EBITDA margin expanding by 284bps YoY to 19.4%. PAT grew 32.9% YoY to Rs8.1bn (PLe Rs7.5bn), owing to strong operational performance and higher other income up 127% YoY to Rs1.7bn in Q2FY24.

Order backlog stands strong at Rs687.3bn: H1FY24 order inflow came in at ~Rs154bn, comprising of order wins such as 2 Regiments of Improved Akash Weapon System (AWS), Shakti EW & Sanket MK III (Naval Systems) supply of Long Range Guidance Kit with Warhead, Airborne etc. Order book stands strong at Rs687.3bn (3.9x TTM revenue). Split between products and services order book stands at 90%/10% respectively.

Exhibit 1: Higher other income drives PAT growth of ~33% YoY

Y/e March	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Revenue	39,458	41,310	64,566	35,108	39,933	1.2	13.7	75,042	70,586	6.3
Total Revenues	39,458	41,310	64,566	35,108	39,933	1.2	13.7	75,042	70,586	6.3
Expenditure	30,901	32,775	46,318	28,464	29,890	(3.3)	5.0	58,354	56,894	2.6
<i>as % of sales</i>	<i>78.3</i>	<i>79.3</i>	<i>71.7</i>	<i>81.1</i>	<i>74.8</i>			<i>77.8</i>	<i>80.6</i>	
Consumption of RM	22,383	24,157	33,464	19,844	20,452	(8.6)	3.1	40,296	40,467	(0.4)
<i>as % of sales</i>	<i>56.7</i>	<i>58.5</i>	<i>51.8</i>	<i>56.5</i>	<i>51.2</i>			<i>53.7</i>	<i>57.3</i>	
Employee Cost	5,955	5,674	5,584	6,237	5,934	(0.3)	(4.9)	12,171	11,719	3.9
<i>as % of sales</i>	<i>15.1</i>	<i>13.7</i>	<i>8.6</i>	<i>17.8</i>	<i>14.9</i>			<i>16.2</i>	<i>16.6</i>	
Other expenditure	2,563	2,944	7,270	2,383	3,504	36.7	47.0	5,887	4,708	25.0
<i>as % of sales</i>	<i>6.5</i>	<i>7.1</i>	<i>11.3</i>	<i>6.8</i>	<i>8.8</i>			<i>7.8</i>	<i>6.7</i>	
EBITDA	8,558	8,535	18,248	6,644	10,044	17.4	51.2	16,688	13,693	21.9
Depreciation	1,042	1,008	1,088	1,013	1,004	(3.6)	(0.8)	2,017	1,983	1.7
EBIT	7,516	7,527	17,160	5,632	9,039	20.3	60.5	14,671	11,710	25.3
Other Income	750	575	678	1,417	1,705	127.3	20.4	3,122	2,348	33.0
Interest	17	97	23	11	15	(13.2)	41.1	26	28	(6.5)
PBT	8,249	8,004	17,815	7,038	10,729	30.1	52.5	17,767	14,030	26.6
Total Tax	2,138	2,017	4,161	1,729	2,606	21.9	50.7	4,335	3,604	20.3
Adjusted PAT	6,111	5,988	13,654	5,308	8,123	32.9	53.0	13,432	10,425	28.8
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	6,111	5,988	13,654	5,308	8,123	32.9	53.0	13,432	10,425	28.8
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	6,111	5,988	13,654	5,308	8,123	32.9	53.0	13,432	10,425	28.8
Adjusted EPS	0.8	0.8	1.9	0.7	1.1	32.9	53.0	1.8	1.4	28.8
Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	bps	bps	H1FY24	H1FY23	bps
EBIDTA	21.7	20.7	28.3	18.9	25.2	346	623	22.2	19.4	284
EBIT	19.0	18.2	26.6	16.0	22.6	359	660	19.6	16.6	296
EBT	20.9	19.4	27.6	20.0	26.9	596	682	23.7	19.9	380
PAT	15.5	14.5	21.1	15.1	20.3	486	522	17.9	14.8	313
Effective Tax rate	25.9	25.2	23.4	24.6	24.3	(163)	(28)	24.4	25.7	(129)

Source: Company, PL

Conference Call Highlights

- Revenue were impacted due to spillover of execution worth Rs4bn to H2FY24
- **Guidance:** Management maintained its guidance of 15-17% revenue growth with gross margin of 40-42% and EBITDA margins of 21-23%. Order inflow to be Rs200bn+.
- Tender Pipeline for next 12 months comprises of 1) equipment's for shipbuilding programs with CSL &GRSE (~Rs25bn) 2) Electronic warfare system (~Rs20bn) and 3) tank upgrade programme (~Rs30bn).
- Indigenous content for LRSAM accounts for 60% as of now.
- **Order book:** Off the total order book of Rs687bn, Products account for 90% while service accounts for 10%.
- **Non-defence:** H1FY24 revenue contribution from non- Defence segment stands at ~29%.
 - Supplies of EVM machines have been completed and accounted for ~Rs11bn of revenue for H1FY24.
 - **Non-defence prospects-** Air Traffic Management System opportunity size for next 1-2 year stands at ~Rs8-9bn.
- **Exports:** H1FY24 exports revenue stood at US\$27mn, management targets for US\$90mn for FY24.
- **Capex:** Planned for Capex of ~Rs7-8bn for FY24, out of which ~Rs2.5bn has been incurred in H1FY24.
- **Working Capital:** current asset to current liability ratio stands at 1.5x and cash and cash equivalent as on date stood at Rs80bn.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,76,458	2,06,515	2,38,309	2,69,422
YoY gr. (%)	15.2	17.0	15.4	13.1
Cost of Goods Sold	98,088	1,19,159	1,36,789	1,53,301
Gross Profit	78,370	87,356	1,01,519	1,16,121
Margin (%)	44.4	42.3	42.6	43.1
Employee Cost	22,977	24,782	27,167	30,714
Other Expenses	11,362	12,230	14,060	15,896
EBITDA	40,472	45,367	53,596	61,940
YoY gr. (%)	22.3	12.1	18.1	15.6
Margin (%)	22.9	22.0	22.5	23.0
Depreciation and Amortization	4,079	4,339	4,648	5,043
EBIT	36,393	41,028	48,948	56,897
Margin (%)	20.6	19.9	20.5	21.1
Net Interest	148	118	71	75
Other Income	3,600	4,213	4,766	5,388
Profit Before Tax	39,845	45,123	53,643	62,211
Margin (%)	22.6	21.8	22.5	23.1
Total Tax	9,782	11,281	13,411	15,553
Effective tax rate (%)	24.6	25.0	25.0	25.0
Profit after tax	30,063	33,842	40,232	46,658
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	30,063	33,842	40,232	46,658
YoY gr. (%)	28.0	12.6	18.9	16.0
Margin (%)	17.0	16.4	16.9	17.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	30,063	33,842	40,232	46,658
YoY gr. (%)	28.0	12.6	18.9	16.0
Margin (%)	17.0	16.4	16.9	17.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	30,063	33,842	40,232	46,658
Equity Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	4.1	4.6	5.5	6.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	49,581	57,581	67,581	77,581
Tangibles	49,581	57,581	67,581	77,581
Intangibles	-	-	-	-
Acc: Dep / Amortization	23,618	27,957	32,604	37,647
Tangibles	23,618	27,957	32,604	37,647
Intangibles	-	-	-	-
Net fixed assets	25,963	29,624	34,977	39,934
Tangibles	25,963	29,624	34,977	39,934
Intangibles	-	-	-	-
Capital Work In Progress	9,172	9,172	9,172	9,172
Goodwill	-	-	-	-
Non-Current Investments	6,901	11,978	20,256	23,170
Net Deferred tax assets	5,034	5,034	5,034	7,047
Other Non-Current Assets	4,384	6,815	7,149	8,083
Current Assets				
Investments	-	-	-	-
Inventories	64,121	70,724	78,348	88,577
Trade receivables	70,220	90,527	1,01,200	1,14,412
Cash & Bank Balance	80,090	84,420	89,840	97,340
Other Current Assets	82,405	86,736	95,323	1,13,157
Total Assets	3,45,511	3,91,441	4,37,814	4,95,597
Equity				
Equity Share Capital	7,310	7,310	7,310	7,310
Other Equity	1,28,510	1,43,739	1,65,867	1,90,129
Total Network	1,35,820	1,51,049	1,73,177	1,97,439
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	33,200	45,263	48,968	55,361
Other current liabilities	1,81,525	2,00,163	2,20,703	2,49,844
Total Equity & Liabilities	3,45,511	3,91,441	4,37,814	4,95,597

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	39,849	45,123	53,643	62,211
Add. Depreciation	4,079	4,339	4,648	5,043
Add. Interest	148	118	71	75
Less Financial Other Income	3,600	4,213	4,766	5,388
Add. Other	(2,194)	-	-	-
Op. profit before WC changes	41,881	49,580	58,362	67,329
Net Changes-WC	(21,179)	(2,730)	(3,204)	(7,002)
Direct tax	(9,150)	(11,281)	(13,411)	(15,553)
Net cash from Op. activities	11,552	35,569	41,747	44,774
Capital expenditures	(5,621)	(8,000)	(10,000)	(12,790)
Interest / Dividend Income	3,386	-	-	-
Others	30,055	(4,508)	(8,151)	-
Net Cash from Inv. activities	27,820	(12,508)	(18,151)	(12,790)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(12,424)	(18,613)	(18,105)	(22,396)
Interest paid	(43)	(118)	(71)	(75)
Others	(654)	-	-	(2,014)
Net cash from Fin. activities	(13,121)	(18,732)	(18,176)	(24,484)
Net change in cash	26,251	4,330	5,420	7,500
Free Cash Flow	5,914	27,569	31,747	34,774

Source: Company Data, PL Research

Quarterly Financials (Rs m)

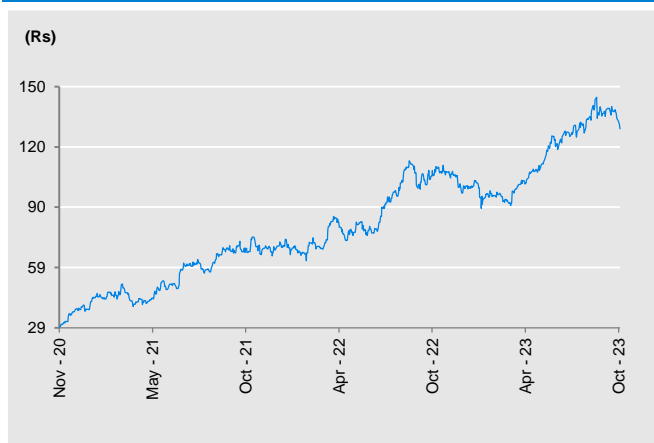
Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	41,310	64,566	35,108	39,933
YoY gr. (%)	11.8	2.1	12.8	1.2
Raw Material Expenses	24,157	33,464	19,844	20,452
Gross Profit	17,153	31,101	15,264	19,482
Margin (%)	41.5	48.2	43.5	48.8
EBITDA	8,535	18,248	6,644	10,044
YoY gr. (%)	3.8	16.4	29.4	17.4
Margin (%)	20.7	28.3	18.9	25.2
Depreciation / Depletion	1,008	1,088	1,013	1,004
EBIT	7,527	17,160	5,632	9,039
Margin (%)	18.2	26.6	16.0	22.6
Net Interest	97	23	11	15
Other Income	575	678	1,417	1,705
Profit before Tax	8,004	17,815	7,038	10,729
Margin (%)	19.4	27.6	20.0	26.9
Total Tax	2,017	4,161	1,729	2,606
Effective tax rate (%)	25.2	23.4	24.6	24.3
Profit after Tax	5,988	13,654	5,308	8,123
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,988	13,654	5,308	8,123
YoY gr. (%)	2.6	19.6	23.0	32.9
Margin (%)	14.5	21.1	15.1	20.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,988	13,654	5,308	8,123
YoY gr. (%)	2.6	19.6	23.0	32.9
Margin (%)	14.5	21.1	15.1	20.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,988	13,654	5,308	8,123
Avg. Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	0.8	1.9	0.7	1.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	4.1	4.6	5.5	6.4
CEPS	4.7	5.2	6.1	7.1
BVPS	18.6	20.7	23.7	27.0
FCF	0.8	3.8	4.3	4.8
DPS	0.6	2.5	2.5	3.1
Return Ratio(%)				
RoCE	28.5	28.6	30.2	30.7
ROIC	57.5	52.1	50.8	48.5
RoE	23.5	23.6	24.8	25.2
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.5)
Net Working Capital (Days)	209	205	200	200
Valuation(x)				
PER	32.4	28.8	24.2	20.9
P/B	7.2	6.4	5.6	4.9
P/CEPS	28.5	25.5	21.7	18.8
EV/EBITDA	22.1	19.6	16.5	14.2
EV/Sales	5.1	4.3	3.7	3.3
Dividend Yield (%)	0.5	1.9	1.9	2.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-23	Accumulate	140	139
2	28-Jul-23	Accumulate	140	130
3	06-Jul-23	BUY	125	125
4	24-May-23	BUY	125	109
5	21-May-23	BUY	125	107
6	11-Apr-23	BUY	125	100
7	02-Feb-23	BUY	125	93
8	30-Jan-23	BUY	125	94
9	04-Jan-23	BUY	125	100
10	16-Nov-22	BUY	125	107

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,013	4,068
2	Apar Industries	Accumulate	5,630	5,165
3	Bharat Electronics	Accumulate	140	139
4	BHEL	Reduce	67	127
5	Carborundum Universal	BUY	1,408	1,076
6	Cummins India	Hold	1,788	1,691
7	Engineers India	Accumulate	165	143
8	GE T&D India	Hold	260	413
9	Grindwell Norton	BUY	2,604	2,092
10	Harsha Engineers International	Accumulate	474	415
11	Hindustan Aeronautics	BUY	2,266	1,889
12	Kalpataru Projects International	BUY	732	647
13	KEC International	Hold	645	672
14	Larsen & Toubro	BUY	3,302	3,096
15	Praj Industries	Accumulate	618	571
16	Siemens	Accumulate	4,241	3,559
17	Thermax	Hold	2,613	3,101
18	Triveni Turbine	Accumulate	419	421
19	Voltamp Transformers	Hold	5,079	4,989

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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