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India | Equity Research | Company Update

Bharat Electronics

Defense

Order inflow continues to impress

Bharat Electronics (BEL) has received AMC orders worth INR 39.15bn, taking its total order inflow for FY24 to INR 183bn thus far. In our view, these are recurring annual orders and hence, may be executed within the next 12-15 months. Going ahead, we believe the company is likely to receive orders worth INR 68bn pertaining to the fuses for the Indian Army and sub-systems for naval platforms, taking the total order inflow for FY24 to INR 250bn, compared to the management's guidance of INR 200bn. As a result, we believe the management might revise up its earnings/order inflow guidance. Taking cognisance of strong order inflow and steady execution, we raise our valuation multiple to 28x (earlier 27x) and roll over to FY26E. Our revised TP works out to INR 190 (earlier INR 155) on 28x FY26E EPS. Maintain **BUY**.

Steady order inflow, best among DPSUs

BEL has received order inflow of INR 39.15bn pertaining to AMC of: 1) Radars from Indian Army worth INR 5.8bn; and 2) Airborne Early Warning & Control (AEW&C) system, uncooled TI sights, SDRs, SWIR payload, IACCs and Passive Night Vision Binoculars etc. In our view, these are recurring orders and hence, may be executed within the next 12-15 months. Furthermore, the AMC of radars is likely to have participation from the sub-vendors of BEL as well. These fresh orders take the total order inflow for FY24 (thus far) at INR 183bn, easily the highest among all DPSUs. We believe the execution in H2FY24E may be boosted by the strong order funnel already in place.

Earnings upgrade on anvil

We expect additional orders worth INR 68bn in the remaining part of FY24E pertaining to the fuses for the Indian Army (estimated at INR40bn) and sub-systems for naval platforms (estimated at INR 28bn). This is likely to result in FY24 order inflow of INR 250bn compared to the current guidance of INR 200bn. Our FY25E EPS at INR 5.8/share is 7% ahead of consensus. We believe there is a reasonable possibility that consensus estimates are revised up, following the steady execution over next two years. At this stage, we introduce our FY26E EPS at INR 6.8/share, factoring in 14% YoY revenue growth and EBITDA margin of 23.8% owing to higher level of indigenous content. We continue to believe that among all DPSUs, BEL enjoys the benefits of being present in various platforms across services, allaying the risk of budgetary allocation.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	1,77,344	2,03,398	2,36,829	2,69,685
EBITDA	40,859	46,213	54,844	64,137
EBITDA Margin (%)	23.0	22.7	23.2	23.8
Net Profit	29,862	35,477	42,369	49,505
EPS (Rs)	4.1	4.9	5.8	6.8
EPS % Chg YoY	24.9	19.3	19.7	17.0
P/E (x)	38.8	32.5	27.2	23.2
EV/EBITDA (x)	25.2	22.1	18.4	15.5
RoCE (%)	19.6	18.7	19.3	21.4
RoE (%)	24.0	26.2	28.8	31.0

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Market Data

Market Cap (INR)	1,141bn
Market Cap (USD)	13,698mn
Bloomberg Code	BHE IN
Reuters Code	BAJE.BO
52-week Range (INR)	158 /87
Free Float (%)	49.0
ADTV-3M (mn) (USD)	25.6

Price Performance (%)	3m	6m	12m
Absolute	12.9	32.9	50.3
Relative to Sensex	5.9	11.7	12.7

ESG Disclosure	2021	2022	Change
ESG score	35.6	36.2	0.6
Environment	17.6	17.6	-
Social	25.5	27.4	1.8
Governance	63.6	63.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

01-11-2023: [Q2FY24 Concall update](#)

29-10-2023: [Q2FY24 result review](#)

Outlook: Good performance on cards; maintain BUY

Despite FY24 being a pre-election year, BEL continues to report an impressive order inflow, lending certainty to the execution. At this stage, we introduce FY26E earnings. We revise up our valuation multiple one notch to 28x (earlier 27x) taking cognisance of stronger and certain order execution. We roll over valuation to FY26E, resulting in a revised TP of INR 190 (earlier INR 155) on 28x FY26E EPS.

Key Risks

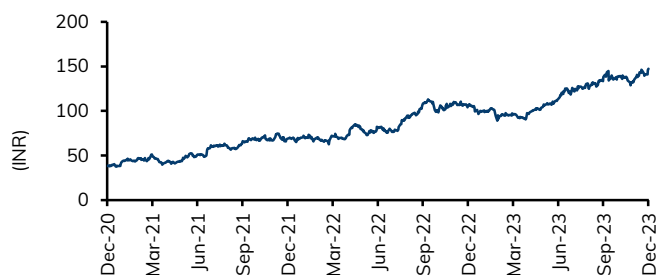
- Delay in the award of key orders such as QRSAM
- Delay in execution in current geopolitical scenario
- Erosion in margins

Exhibit 1: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	51.1	51.1	51.1
Institutional investors	42.0	42.2	41.4
MFs and others	20.1	19.3	18.9
FIs/Insurance	5.3	4.3	4.0
FIIIs	16.6	18.6	18.5
Others	6.9	6.7	7.5

Source: Bloomberg, I-Sec research

Exhibit 2: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	1,77,344	2,03,398	2,36,829	2,69,685
Operating Expenses	1,36,486	1,57,185	1,81,985	2,05,547
EBITDA	40,859	46,213	54,844	64,137
EBITDA Margin (%)	23.0	22.7	23.2	23.8
Depreciation & Amortization	4,288	4,648	4,878	5,253
EBIT	36,571	41,565	49,967	58,885
Interest expenditure	150	153	153	153
Other Non-operating Income	2,808	5,400	6,210	6,831
Recurring PBT	39,229	46,812	56,024	65,563
Profit / (Loss) from Associates	459	459	459	459
Less: Taxes	9,826	11,731	14,036	16,423
PAT	29,404	35,081	41,987	49,139
Less: Minority Interest	-	63	78	94
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	29,862	35,540	42,446	49,598
Net Income (Adjusted)	29,862	35,477	42,369	49,505

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	3,00,477	3,18,626	3,39,178	3,66,012
of which cash & cash eqv.	1,53,502	1,61,610	1,69,621	1,84,560
Total Current Liabilities & Provisions	1,69,219	1,84,878	1,92,819	1,99,497
Net Current Assets	1,31,259	1,33,747	1,46,360	1,66,515
Investments	6,770	6,770	6,770	6,770
Net Fixed Assets	29,629	30,376	30,499	30,246
ROU Assets	-	-	-	-
Capital Work-in-Progress	8,549	10,910	11,001	11,092
Total Intangible Assets	-	-	-	-
Other assets	4,449	4,449	4,449	4,449
Deferred Tax assets	5,037	5,037	5,037	5,037
Total Assets	1,85,693	1,91,289	2,04,115	2,24,109
Liabilities				
Borrowings	46,871	46,562	46,562	46,562
Deferred Tax Liability	29	29	29	29
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	7,310	7,310	7,310	7,310
Reserves & Surplus	1,31,307	1,37,148	1,49,897	1,69,797
Total Net Worth	1,38,616	1,44,458	1,57,206	1,77,106
Minority Interest	178	241	319	412
Total Liabilities	1,85,693	1,91,289	2,04,115	2,24,109

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	41,531	64,791	35,329	40,091
% growth (YOY)	12.2	2.2	12.5	1.2
EBITDA	8,634	18,318	6,725	10,142
Margin %	20.8	28.3	19.0	25.3
Other Income	586	662	1,402	1,371
Extraordinaries	-	-	-	-
Adjusted Net Profit	6,135	13,820	5,386	7,897

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	10,537	40,102	36,205	42,496
Working Capital Changes	(22,911)	5,620	(4,602)	(5,216)
Capital Commitments	(5,905)	(7,756)	(5,091)	(5,091)
Free Cashflow	4,632	32,346	31,114	37,404
Other investing cashflow	32,813	5,464	6,289	6,927
Cashflow from Investing Activities	26,908	(2,292)	1,198	1,836
Issue of Share Capital	-	-	-	-
Interest Cost	(113)	(153)	(153)	(153)
Inc (Dec) in Borrowings	-	(309)	-	-
Dividend paid	-	-	-	-
Others	(12,428)	(29,239)	(29,239)	(29,239)
Cash flow from Financing Activities	(12,541)	(29,701)	(29,393)	(29,393)
Chg. in Cash & Bank balance	24,905	8,108	8,010	14,939
Closing cash & balance	37,913	47,565	55,576	70,515

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.0	4.8	5.7	6.7
Adjusted EPS (Diluted)	4.1	4.9	5.8	6.8
Cash EPS	4.7	5.5	6.5	7.5
Dividend per share (DPS)	4.0	4.0	4.0	4.0
Book Value per share (BV)	19.0	19.8	21.5	24.2
Dividend Payout (%)	99.4	83.3	69.6	59.5
Growth (%)				
Net Sales	15.4	14.7	16.4	13.9
EBITDA	22.3	13.1	18.7	16.9
EPS (INR)	24.9	19.3	19.7	17.0
Valuation Ratios (x)				
P/E	38.8	32.5	27.2	23.2
P/CEPS	33.4	28.4	24.2	20.8
P/BV	8.2	7.9	7.3	6.4
EV / EBITDA	25.2	22.1	18.4	15.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	44.6	43.4	42.6	42.6
EBITDA Margins (%)	23.0	22.7	23.2	23.8
Effective Tax Rate (%)	25.0	25.1	25.1	25.0
Net Profit Margins (%)	16.6	17.2	17.7	18.2
Net Debt / Equity (x)	(0.8)	(0.8)	(0.8)	(0.8)
Net Debt / EBITDA (x)	(2.8)	(2.6)	(2.4)	(2.3)
Fixed Asset Turnover (x)	3.6	3.7	3.9	4.1
Inventory Turnover Days	150	152	154	152
Receivables Days	-	0	0	0
Payables Days	-	-	-	-
Profitability Ratios				
RoCE (%)	19.6	18.7	19.3	21.4
RoE (%)	24.0	26.2	28.8	31.0
RoIC (%)	88.6	162.6	147.9	158.9

Source Company data, I-Sec research

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