

January 31, 2024

Q3FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		ACCUMULATE	
Target Price	182		143	
Sales (Rs. m)	2,34,618	2,69,613	2,38,309	2,69,422
% Chng.	(1.5)	0.1		
EBITDA (Rs. m)	53,235	61,984	53,596	61,940
% Chng.	(0.7)	0.1		
EPS (Rs.)	5.6	6.5	5.5	6.4
% Chng.	1.9	1.9		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,76,458	2,03,523	2,34,618	2,69,613
EBITDA (Rs. m)	40,472	46,688	53,235	61,984
Margin (%)	22.9	22.9	22.7	23.0
PAT (Rs. m)	30,063	36,693	40,982	47,524
EPS (Rs.)	4.1	5.0	5.6	6.5
Gr. (%)	28.0	22.1	11.7	16.0
DPS (Rs.)	0.6	2.8	2.5	3.1
Yield (%)	0.3	1.5	1.4	1.7
RoE (%)	23.5	25.5	25.0	25.4
RoCE (%)	28.5	29.5	29.7	30.4
EV/Sales (x)	7.2	6.2	5.4	4.7
EV/EBITDA (x)	31.6	27.2	23.7	20.3
PE (x)	45.2	37.0	33.2	28.6
P/BV (x)	10.0	8.9	7.8	6.8

Key Data

[BAJE.BO](https://www.bseindia.com/BAJE.BO) | [BHE.IN](https://www.bseindia.com/BHE.IN)

52-W High / Low	Rs.196 / Rs.88
Sensex / Nifty	71,752 / 21,726
Market Cap	Rs.1,359bn/ \$ 16,364m
Shares Outstanding	7,310m
3M Avg. Daily Value	Rs.3284.59m

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	0.9	42.2	95.8
Relative	1.6	31.9	62.5

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Bharat Electronics (BHE IN)

Rating: HOLD | CMP: Rs186 | TP: Rs182

Strong order inflows improve execution outlook

Quick Pointers:

- Order book as on 31-Dec stood at Rs762.2bn (4.3x TTM revenue) with robust inflows of ~Rs122bn during the quarter.
- Management stuck to ~15% revenue growth guidance for FY24 and guided for 42% gross & 23% EBITDA margin (vs range of 40-42% & 21-23% earlier).

We downgrade to 'Hold' rating from Accumulate given steep valuations from the recent run up in stock price. Bharat Electronics (BEL) reported a mixed performance with flat revenue growth and EBITDA margin expansion of 471bps YoY to 25.4%. Revenue was partly impacted by supply chain disruptions caused by the Israel conflict, which led to spillover of revenue worth Rs4-5bn to Q4FY24. 9MFY24 order inflows came in strong at ~Rs266bn, comfortably surpassing FY24 inflow guidance of Rs200bn+. Management estimates ~Rs500bn cumulative order inflows over FY25 & FY26, factoring in Rs200bn QRSAM orders from Indian Army and Air Force. Other defence prospects include BMP upgrade, EW systems, Ashwini radar, airborne missile systems, anti-drone systems, ship upgrades/refits, etc. While defence vertical is expected to grow faster, there are opportunities in non-defence areas such as metros, civil aviation, IT infra, smart cities and cyber security.

We remain positive on BEL's long-term growth story given 1) strong order backlog & pipeline, 2) diversification into non-defence verticals like metros, civil aviation, IT infra, etc. 3) focus on export markets, and 4) govt's push on indigenization in defence. The stock is currently trading at a P/E of 33.2x/28.6x FY25/26E. We roll forward to FY26 and value the stock at a P/E of 28x FY26E (24x Sep-25E earlier) with a revised TP of Rs182 (Rs143 earlier) owing to robust order inflows & healthy execution outlook. Downgrade to 'Hold'.

Miss on topline, but strong improvement in margins and PAT: Standalone revenue rose only 0.1% YoY to Rs41.4bn (PLe: Rs48.3bn), impacted by revenue spillover of Rs4-5bn due to supply chain disruptions in Israel. Gross margin expanded by 682bps YoY to 48.3%. (PLe: 41.0%). EBITDA grew 23.0% YoY to Rs10.5bn (PLe: Rs.9.6bn). EBITDA margin increased by 471bps YoY to 25.4% (PLe: 19.8%; consensus estimate: 21.9%), mainly on account of gross margin expansion, which was partly offset by higher employee costs (up 9.2% YoY to Rs9.2bn). PBT grew 46.5% YoY to Rs11.7bn (PLe: Rs9.5bn). PAT jumped 49.2% YoY to Rs8.9bn (PLe: Rs7.1bn), owing to strong operating profitability, higher other income at Rs2.2bn (vs Rs575mn in Q3FY23) and a lower effective tax rate. Non-defence revenue accounted for ~20% of the mix in 9MFY24.

Order backlog stands strong at Rs762.2bn (4.3x TTM revenue): Order inflow during the quarter came in at ~Rs122bn, taking 9MFY24 inflows to ~Rs266bn, surpassing FY24 guidance of Rs200bn+. Major orders include Rs45.2bn for supply of fuses to the Army and Rs26.7bn from Goa Shipyard and GRSE for supply of 14 types of sensors for use on Next Generation Offshore Patrol Vessels. Services account for ~10% of the order book.

Exhibit 1: Strong operating profitability, higher other income and lower tax rate drive PAT growth of 49.2% YoY

Y/e March (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY gr. (%)	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Revenue	41,310	64,566	35,108	39,933	41,367	0.1	3.6	1,16,409	1,11,896	4.0
Total Revenues	41,310	64,566	35,108	39,933	41,367	0.1	3.6	1,16,409	1,11,896	4.0
Expenditure	32,775	46,318	28,464	29,890	30,873	(5.8)	3.3	89,226	89,669	(0.5)
<i>as % of sales</i>	<i>79.3</i>	<i>71.7</i>	<i>81.1</i>	<i>74.8</i>	<i>74.6</i>			<i>76.6</i>	<i>80.1</i>	
Consumption of RM	24,157	33,464	19,844	20,452	21,370	(11.5)	4.5	61,665	64,624	(4.6)
<i>as % of sales</i>	<i>58.5</i>	<i>51.8</i>	<i>56.5</i>	<i>51.2</i>	<i>51.7</i>			<i>53.0</i>	<i>57.8</i>	
Employee Cost	5,674	5,584	6,237	5,934	6,196	9.2	4.4	18,367	17,393	5.6
<i>as % of sales</i>	<i>13.7</i>	<i>8.6</i>	<i>17.8</i>	<i>14.9</i>	<i>15.0</i>			<i>15.8</i>	<i>15.5</i>	
Other expenditure	2,944	7,270	2,383	3,504	3,307	12.3	(5.6)	9,194	7,652	20.2
<i>as % of sales</i>	<i>7.1</i>	<i>11.3</i>	<i>6.8</i>	<i>8.8</i>	<i>8.0</i>			<i>7.9</i>	<i>6.8</i>	
EBITDA	8,535	18,248	6,644	10,044	10,494	23.0	4.5	27,182	22,227	22.3
Depreciation	1,008	1,088	1,013	1,004	998	(1.0)	(0.6)	3,015	2,991	0.8
EBIT	7,527	17,160	5,632	9,039	9,496	26.2	5.1	24,167	19,237	25.6
Other Income	575	678	1,417	1,705	2,232	288.3	30.9	5,353	2,922	83.2
Interest	97	23	11	15	5	(94.8)	(66.2)	31	125	(75.3)
PBT	8,004	17,815	7,038	10,729	11,723	46.5	9.3	29,490	22,034	33.8
Total Tax	2,017	4,161	1,729	2,606	2,790	38.3	7.0	7,125	5,621	26.8
Adjusted PAT	5,988	13,654	5,308	8,123	8,933	49.2	10.0	22,365	16,413	36.3
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	5,988	13,654	5,308	8,123	8,933	49.2	10.0	22,365	16,413	36.3
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	5,988	13,654	5,308	8,123	8,933	49.2	10.0	22,365	16,413	36.3
Adjusted EPS	0.8	1.9	0.7	1.1	1.2	49.2	10.0	3.1	2.2	36.3
Margins (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	bps	bps	9MFY24	9MFY23	bps
Gross	41.5	48.2	43.5	48.8	48.3	682	(44)	47.0	42.2	478
EBITDA	20.7	28.3	18.9	25.2	25.4	471	22	23.4	19.9	349
EBIT	18.2	26.6	16.0	22.6	23.0	474	32	20.8	17.2	357
EBT	19.4	27.6	20.0	26.9	28.3	896	147	25.3	19.7	564
PAT	14.5	21.1	15.1	20.3	21.6	710	125	19.2	14.7	454
Effective Tax rate	25.2	23.4	24.6	24.3	23.8	(140)	(49)	24.2	25.5	(135)

Source: Company, PL

Conference Call Highlights

- **Order book worth Rs762bn** is executable over the next 4 years.
- **Order inflow in 9MFY24 came in at Rs266bn**, with further orders set to come. No major impact of general elections on ordering as the government has fast tracked most contracts already. Some orders which were supposed to come next year came in this year itself.
- **Expect Rs500bn cumulative order inflows over FY25 & FY26**, including Rs200bn for QRSAM (~Rs100bn each year). This does not factor in MRSAM.
- Less than 20% of revenue will likely get booked in first 18 months of the QRSAM contract.
- **Revenue was impacted due to spillover of execution** worth Rs4-5bn to Q4FY24 caused by supply chain disruptions in Israel.
- **Rs40-45bn exposure to Israel** in the order book, including LRSAM, EW, etc.
- Import dependency will continue for products such as electro-optics from Israel and semiconductors, but dependency on Russia for tank electronics will fall.
- Management maintained its FY24 guidance of ~15% revenue growth with gross margin of 42% and EBITDA margin of 23%.
- Products with relatively lower material costs got delivered in 9MFY24, benefiting margins. Some products with higher material costs will be delivered in Q4, impacting the mix and hence gross margin.
- Will give guidance for FY25E after the full year result, but expect revenue growth and margins to largely remain in same range going forward.
- **Non-defence business contributed ~20% to revenue** in 9MFY24. However, with defence business set to grow at faster, non-defence contribution will likely be 10-15% going forward. Management sees non-defence opportunities in metros, civil aviation, IT infrastructure, smart cities, and cyber security.
 - Recently bagged order from Central Board of Indirect Taxes and Customs worth Rs6.7bn for implementation & management of its IT infrastructure.
 - Also won order worth Rs445bn from UP government to provide hardware, AI-based software, and cyber security solutions for the Dial 112 project
 - Established a new business unit for cyber security and working with AIIMS and Ministry of Health for their requirements.
- **9MFY24 export revenue** stood at Rs4bn (~\$50mn); management target for FY24 is \$90m.
- **Incurred capex** of Rs4bn YTD out of total Rs7-8bn planned for FY24. FY25 capex will also be Rs7-8bn.
- **Working capital position:** Receivables – Rs77bn, inventory – Rs70bn, contract assets – Rs56bn. Maintaining working capital ratio of 1.5x. Cash position stood at Rs80bn.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,76,458	2,03,523	2,34,618	2,69,613
YoY gr. (%)	15.2	15.3	15.3	14.9
Cost of Goods Sold	98,088	1,17,026	1,34,201	1,53,410
Gross Profit	78,370	86,497	1,00,416	1,16,203
Margin (%)	44.4	42.5	42.8	43.1
Employee Cost	22,977	24,321	26,746	30,736
Other Expenses	11,362	10,583	13,842	15,907
EBITDA	40,472	46,688	53,235	61,984
YoY gr. (%)	22.3	15.4	14.0	16.4
Margin (%)	22.9	22.9	22.7	23.0
Depreciation and Amortization	4,079	4,203	4,648	5,043
EBIT	36,393	42,485	48,587	56,941
Margin (%)	20.6	20.9	20.7	21.1
Net Interest	148	74	44	47
Other Income	3,600	6,513	6,100	6,471
Profit Before Tax	39,845	48,924	54,643	63,365
Margin (%)	22.6	24.0	23.3	23.5
Total Tax	9,782	12,231	13,661	15,841
Effective tax rate (%)	24.6	25.0	25.0	25.0
Profit after tax	30,063	36,693	40,982	47,524
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	30,063	36,693	40,982	47,524
YoY gr. (%)	28.0	22.1	11.7	16.0
Margin (%)	17.0	18.0	17.5	17.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	30,063	36,693	40,982	47,524
YoY gr. (%)	28.0	22.1	11.7	16.0
Margin (%)	17.0	18.0	17.5	17.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	30,063	36,693	40,982	47,524
Equity Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	4.1	5.0	5.6	6.5

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	27,821	32,469	37,512
Tangibles	23,618	27,821	32,469	37,512
Intangibles	-	-	-	-
Net fixed assets	25,963	29,760	35,112	40,069
Tangibles	25,963	29,760	35,112	40,069
Intangibles	-	-	-	-
Capital Work In Progress	9,172	9,172	9,172	9,172
Goodwill	-	-	-	-
Non-Current Investments	6,901	11,804	19,943	23,187
Net Deferred tax assets	5,034	5,034	5,034	7,047
Other Non-Current Assets	4,384	6,716	7,039	8,088
Current Assets				
Investments	-	-	-	-
Inventories	64,121	69,700	77,135	88,640
Trade receivables	70,220	89,216	99,632	1,14,493
Cash & Bank Balance	80,090	89,873	96,658	1,01,530
Other Current Assets	82,405	85,480	93,847	1,13,237
Total Assets	3,45,511	3,93,144	4,40,061	5,00,169
Equity				
Equity Share Capital	7,310	7,310	7,310	7,310
Other Equity	1,28,510	1,45,022	1,67,562	1,92,274
Total Network	1,35,820	1,52,332	1,74,872	1,99,584
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	33,200	44,608	48,209	55,400
Other current liabilities	1,81,525	2,01,239	2,22,014	2,52,232
Total Equity & Liabilities	3,45,511	3,93,144	4,40,061	5,00,169

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	39,849	48,924	54,643	63,365
Add. Depreciation	4,079	4,203	4,648	5,043
Add. Interest	148	74	44	47
Less Financial Other Income	3,600	6,513	6,100	6,471
Add. Other	(2,194)	-	-	-
Op. profit before WC changes	41,881	53,201	59,335	68,455
Net Changes-WC	(21,179)	1,414	(2,389)	(9,765)
Direct tax	(9,150)	(12,231)	(13,661)	(15,841)
Net cash from Op. activities	11,552	42,384	43,285	42,848
Capital expenditures	(5,621)	(8,000)	(10,000)	(13,104)
Interest / Dividend Income	3,386	-	-	-
Others	30,055	(4,346)	(8,014)	-
Net Cash from Invt. activities	27,820	(12,346)	(18,014)	(13,104)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(12,424)	(20,181)	(18,442)	(22,812)
Interest paid	(43)	(74)	(44)	(47)
Others	(654)	-	-	(2,014)
Net cash from Fin. activities	(13,121)	(20,255)	(18,486)	(24,872)
Net change in cash	26,251	9,783	6,785	4,872
Free Cash Flow	5,914	34,384	33,285	32,848

Source: Company Data, PL Research

Key Financial Metrics

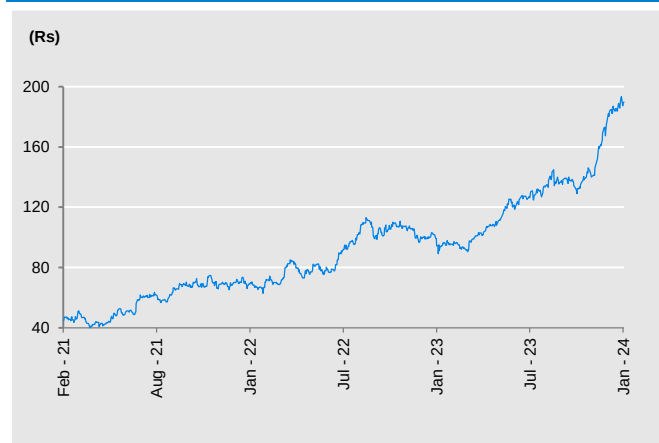
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	4.1	5.0	5.6	6.5
CEPS	4.7	5.6	6.2	7.2
BVPS	18.6	20.8	23.9	27.3
FCF	0.8	4.7	4.6	4.5
DPS	0.6	2.8	2.5	3.1
Return Ratio(%)				
RoCE	28.5	29.5	29.7	30.4
ROIC	57.5	58.8	54.4	49.8
RoE	23.5	25.5	25.0	25.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.5)
Net Working Capital (Days)	209	205	200	200
Valuation(x)				
PER	45.2	37.0	33.2	28.6
P/B	10.0	8.9	7.8	6.8
P/CEPS	39.8	33.2	29.8	25.9
EV/EBITDA	31.6	27.2	23.7	20.3
EV/Sales	7.2	6.2	5.4	4.7
Dividend Yield (%)	0.3	1.5	1.4	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	64,566	35,108	39,933	41,367
YoY gr. (%)	2.1	12.8	1.2	0.1
Raw Material Expenses	33,464	19,844	20,452	21,370
Gross Profit	31,101	15,264	19,482	19,997
Margin (%)	48.2	43.5	48.8	48.3
EBITDA	18,248	6,644	10,044	10,494
YoY gr. (%)	16.4	29.4	17.4	23.0
Margin (%)	28.3	18.9	25.2	25.4
Depreciation / Depletion	1,088	1,013	1,004	998
EBIT	17,160	5,632	9,039	9,496
Margin (%)	26.6	16.0	22.6	23.0
Net Interest	23	11	15	5
Other Income	678	1,417	1,705	2,232
Profit before Tax	17,815	7,038	10,729	11,723
Margin (%)	27.6	20.0	26.9	28.3
Total Tax	4,161	1,729	2,606	2,790
Effective tax rate (%)	23.4	24.6	24.3	23.8
Profit after Tax	13,654	5,308	8,123	8,933
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,654	5,308	8,123	8,933
YoY gr. (%)	19.6	23.0	32.9	49.2
Margin (%)	21.1	15.1	20.3	21.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,654	5,308	8,123	8,933
YoY gr. (%)	19.6	23.0	32.9	49.2
Margin (%)	21.1	15.1	20.3	21.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,654	5,308	8,123	8,933
Avg. Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	1.9	0.7	1.1	1.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jan-24	Accumulate	143	184
2	31-Oct-23	Accumulate	143	133
3	05-Oct-23	Accumulate	140	139
4	28-Jul-23	Accumulate	140	130
5	06-Jul-23	BUY	125	125
6	24-May-23	BUY	125	109
7	21-May-23	BUY	125	107
8	11-Apr-23	BUY	125	100
9	02-Feb-23	BUY	125	93

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,984	4,753
2	Apar Industries	Accumulate	6,890	6,069
3	Bharat Electronics	Accumulate	143	184
4	BHEL	UR	-	195
5	Carborundum Universal	BUY	1,408	1,132
6	Cummins India	Hold	1,811	2,005
7	Engineers India	BUY	166	199
8	GE T&D India	UR	-	585
9	Grindwell Norton	BUY	2,604	2,283
10	Harsha Engineers International	Accumulate	415	395
11	Hindustan Aeronautics	BUY	2,266	2,996
12	Kalpataru Projects International	BUY	740	737
13	KEC International	Hold	645	612
14	Larsen & Toubro	BUY	3,437	3,501
15	Praj Industries	Accumulate	611	540
16	Siemens	Accumulate	4,359	4,020
17	Thermax	Hold	2,771	3,200
18	Triveni Turbine	Accumulate	450	407
19	Voltamp Transformers	Hold	7,619	7,910

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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