Bharat Electronics

BSE Sensex	S&P CNX
75,075	22,821

Bloomberg	BHE IN
Equity Shares (m)	7310
M.Cap.(INRb)/(USDb)	2000.3 / 24
52-Week Range (INR)	323 / 113
1, 6, 12 Rel. Per (%)	16/66/109
12M Avg Val (INR M)	4999

Financials Snapshot (INR b)

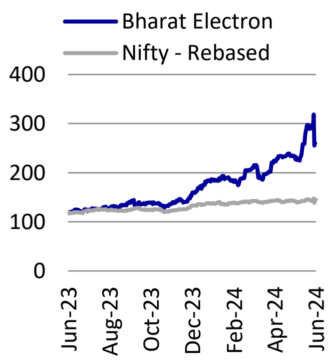
Y/E MARCH	FY24	FY25E	FY26E
Net Sales	201.7	236.5	285.1
EBITDA	50.0	59.4	71.6
PAT	40.2	48.6	59.7
EPS (INR)	5.5	6.7	8.2
GR. (%)	33.7	21.0	22.7
BV/Sh (INR)	22.1	27.8	34.7
Ratios			
ROE (%)	24.9	24.0	23.5
RoCE (%)	27.0	26.7	26.1
Valuations			
P/E (X)	49.8	41.1	33.5
P/BV (X)	12.4	9.9	7.9
EV/EBITDA (X)	37.8	31.4	25.4
Div Yield (%)	0.3	0.4	0.4

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	51.1	51.1	51.1
DII	22.7	23.4	25.5
FII	17.6	17.8	16.4
Others	8.7	7.7	6.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR274 TP: INR310 (+13%) Buy

Growth levers intact

Despite the reduced majority, we expect that the upcoming government's policy focus on investment-led growth, capex, infrastructure, manufacturing, and defense will continue. Particularly for the defense sector, the government initiated several initiatives in last 3-4 years, such as indigenization, higher private sector participation, and increasing defense exports, and we expect a similar focus to continue going forward too. Accordingly, we continue to like Bharat Electronics (BHE) in the defense space, given its presence across highly specialized defense electronics segment. The company's order inflows for FY24 were far ahead of its guidance, thereby hedging it against any slowdown in order inflows in FY25. With a strong order book, stable gross margin and efficient control over working capital, we expect BHE to continue to benefit from defense spending. We thus maintain our estimates and BUY rating on BHE with an unchanged TP of INR310, based on 35x two-year forward earnings.

Defense will continue to be a key focus area for the government

Government had initiated several reforms and initiatives during last 2-3 years for defence indigenization, higher private participation and increasing defence exports. We expect similar focus to remain on the defence sector from the government even post the electoral outcome. Given that the sector is closely linked to national security, we do not see possibility of any re-orientation in defense policy. While a slight tinkering might not be ruled out, we do not foresee any major policy shift that can potentially lead us to revisit our thesis, which remains unchanged.

BEL ideally positioned to benefit from continued defence spending

We expect BEL to remain a key beneficiary of continued government spending on defence. Company has re-rated in last two years on **1) Improving share of BEL** in overall defence capex and possibility of company improving this from current 12.6% levels going forward as against historical share of 8-9% during FY11-18, **2)Stable gross margins** at current levels of 47.6% versus 37-46% seen during FY11-18, **3) Long term CAGR** of 16% in revenues and 17% in EBITDA over next decade (driven by sectoral tailwinds too) versus 10%/12% seen over FY11-21**, 4) Control over working capital** which is at 22 days over FY25-27 versus average NWC cycle of 80-110 days seen during FY19-21**, 5) Improving return ratios**. RoE/RoCE moving towards 24%/26% by FY26 on improved profitability, control over working capital versus mid-teens RoE/RoCE during FY11-21, **6) Positive tailwinds** on order inflows from import embargo, large sized surface to air missiles, radars, avionics etc.

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Strong order inflow during FY24 to sustain healthy growth in revenues

In FY24, BHE successfully secured orders worth around INR350b, including electronic fuses, EW systems, communication systems for naval warships, fire control systems, Akash prime weapon/system, radars, sonars, software defined radios, night vision devices, tactical communication systems, and other projects in the non-defense sector. The order for electronic fuses is of a 10-year period, while the duration of other contracts is 2-5 years. This resulted in a strong order book of INR760b for BHE to be executed over the next 2-3 years. We expect that a moderation in order inflows in FY25 due to any delay in decision-making on large projects will not impact revenue growth for the company thanks to its strong existing order book. The company had already guided for delays in the finalization of large projects like QRSAM, and hence, its guidance of INR500b of order inflows for the next two years excludes QRSAM inflow. Execution over the next two years would come from projects like Akash, LRSAM, Himshakti, Arudra radar, air defense control, etc.

Continuously building capabilities across new areas

BHE is continuously investing in capex for: 1) advanced night vision factory at Neemaluru (already ready) on 50 acres of land for INR3b; 2) EW system at Ibrahimpatnam for INR2b, to be ready in a year; 3) weapon system and integration at Palasamudram for all missile system integration, to be ready in two years; 4) fuse complex and explosives in Nagpur, to be ready in 2-3 years; 5) airborne equipment and EW system at Davangiri; and 6) working in UP defense corridor for setting up an MRO facility for missile systems. All put together, BHE will continue to invest INR6-7b in capex every year.

Financial outlook

We maintain our estimates for the company and expect a CAGR of 19%/20%/22% in sales/EBITDA/PAT over FY24-26E. We expect OCF/FCF to remain strong over FY24-26 on control over working capital. Further, the company had a cash surplus of INR110b (as of FY24), providing scope for further capacity expansion.

Key risks and concerns

A slowdown in order inflows from the defense and non-defense segments, increased competition, further delays in finalization of large tenders, a sharp rise in commodity prices and delays in payments from MoD can adversely impact our estimates on revenues, margins and cash flows.

Valuation and view

BHE is currently trading at 41x/34x on FY25E/FY26E EPS. We expect the company to remain a beneficiary of improved market share, technology tie-ups, MoUs, and an improving share of exports and non-defense in total revenues. We maintain our TP of INR310, based on 35x P/E on two-year forward earnings, which bakes in a 19% CAGR in revenue over the next decade vs. 11% CAGR over the last decade.

Key Exhibits

Exhibit 1: BHE's revenue market share in overall defence capex outlay has improved in the past few years

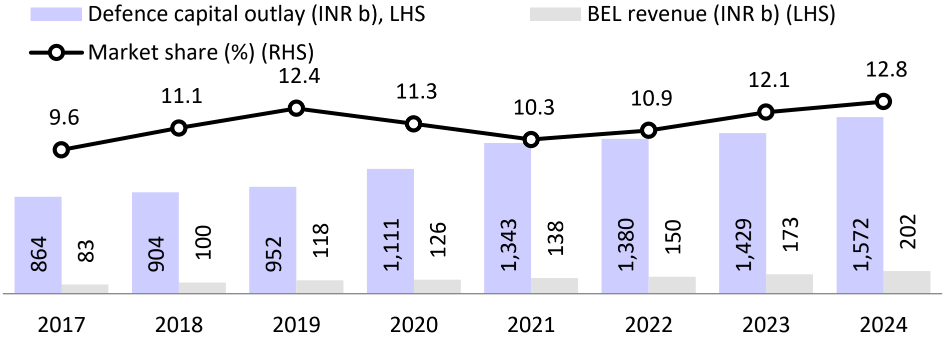
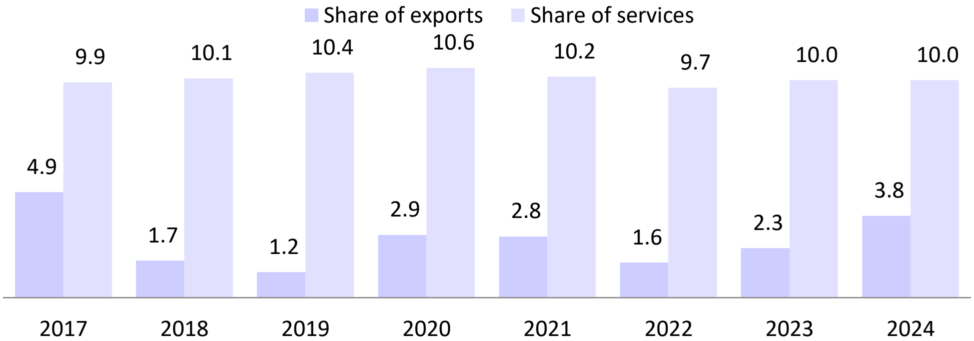


Exhibit 2: Import embargoes are already benefiting BEL as it has presence across wide range of products

	Items where BEL has expertise
First embargo	❖ Successor of Flycatcher, Shipborne close in weapon system, RWR for transport aircraft, ground based mobile ELINT system, GSAT 6 satellite terminal, digital tropo scatter system, low level transportable radar, high power radar, simulators, software defined radio, EW systems, EW suit, close in weapon system, electronic fuses
Second embargo	❖ Mission System for Airborne Early Warning & Control (AEW&C) System, Anti-Torpedo Decoy System for Ships (Mareech), Shipborne High Accuracy ELINT system, SDR for Combat Ships, Border surveillance system, Ship borne Surface Surveillance Radar (SSR), Battlefield Surveillance Radar (BFSR) up to 10 KM, Through Wall imaging Radars, Portable Diver Detection Sonar, Sarvatra Kavach, Multi-Functional Display System, Instant Fire Detection and Suppression System (IFDSS) for Tanks, Power Amplifier for Tropo upgradation - 10W, 2KW, 4KW, Steering Gear for Destroyers and Frigates, Land Based Medium Power Radar, Mountain Weapon Locating Radar (AESA Based), Upgraded Integrated Air Command And Control System, Land Based MRSAM Weapon System, Software Defined Radio (Manpack), Software Defined Radio(Hand Held), Medium Power Radar for Mountain, D-29 Unified Receiver Exciter Processor (UREP) Based EW Suite, Network Centric Operation (NCO) Application for Software Defined Radio (SDR), Thermal Imaging (TI) sight for Small Arms, Image Intensifier (II) Sight for Small Arms, Day Sight for Small arms including Telescopic & Reflex sight, D-29 Unified Receiver Exciter Processor (UREP) Based EW Suite
Third embargo	❖ Long Range Reconnaissance & Observation system (LORROS) up to 30 km, Weapon Locating Radar (Plain & Desert) up to 30 Km, Intercom System for Ships & Submarines, Naval Anti-Drone System (NADS), Radar Finger Print System for ELINT Application, SNF Gas Turbine Generator (GTG) Control System, Very Low Frequency (VLF) Communication Station, Light Weight ESM System for small Ships, 3D C/D Band Radar for Ships, Multi-Functional Surveillance & Threat Alert Radar (MF STAR) for Ships, COMINT (Ship Based), Advance Light Weight Torpedo (Ship Launch), Ship Based Medium Range Surface to Air Missile (MRSAM), Global Navigation Satellite System (GNSS): Jammer System, Global Navigation Satellite System (GNSS): Spoofing System, Hand Held Counter Drone System, Counter Drone System (Hard Kill), Counter Drone System (Soft Kill), Thermal Imaging (TI) Sight for Automatic Grenade System, 40mm Multi Grenade Launcher (MGL), Helo Deck Communication System, Stabiliser for Ships, Long Range Weapon with IR Seeker (70-100KM), Land Based Tactical Communication System, Radar Warning Receiver (RWR) for Su-30 MKI, Radar Warning Receiver (RWR) for Mi-17 & Mi-17 IV, Instrumented Electronic Warfare Range (IEWR), Battle Field Surveillance Radar (Range 30 KM), Operational Control System for Air Defence Weapon for Army (Project AKASHTEER), Medium Altitude Long Endurance (MALE) Unmanned Aerial Vehicles (UAV), Twin Store Rack for Smart Anti Airfield Weapon (SAAW), Infrared Search & Track (IRST) for Su-30

Source: MoD

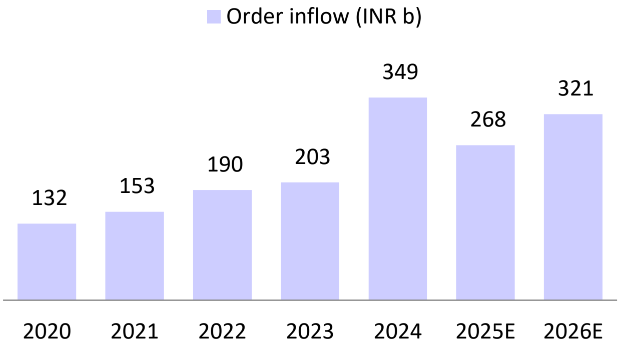
Exhibit 3: Share of exports is improving and share of services is stable at around 10%



Source: Company, MOFSL

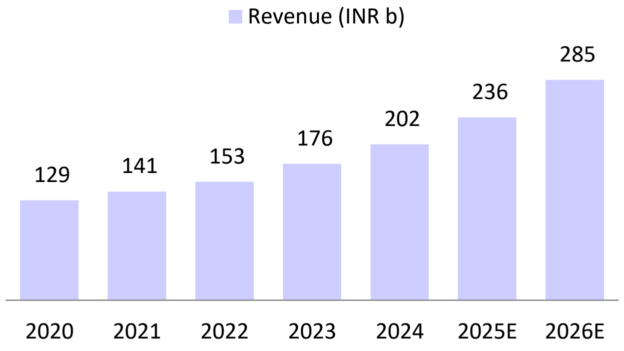
Financial outlook

Exhibit 4: We expect order inflows to decline in FY25 due to high base of FY24



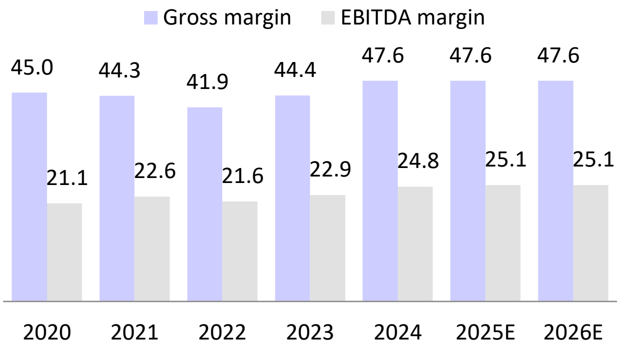
Source: MOFSL, Company

Exhibit 5: We expect a CAGR of 19% in revenue over FY24-26E led by strong orderbook



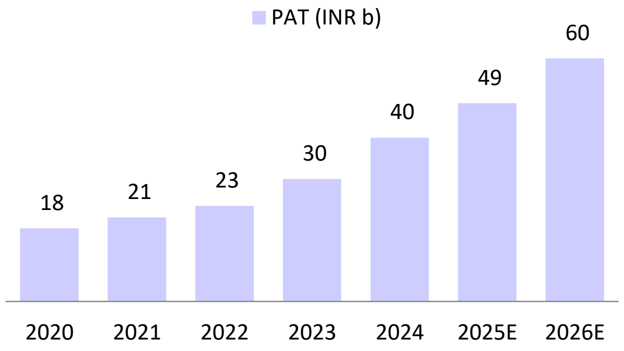
Source: MOFSL, Company

Exhibit 6: We expect EBITDA margin to range around 25%



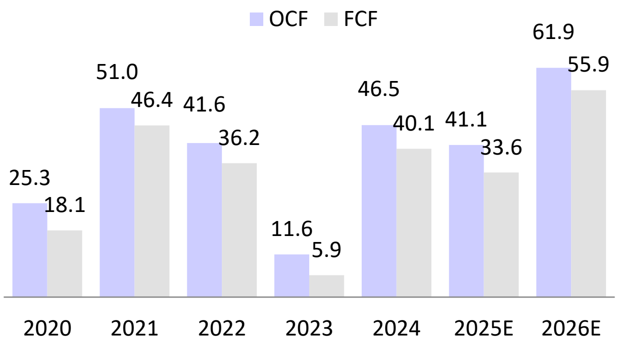
Source: MOFSL, Company

Exhibit 7: We expect a 22% PAT CAGR over FY24-26E



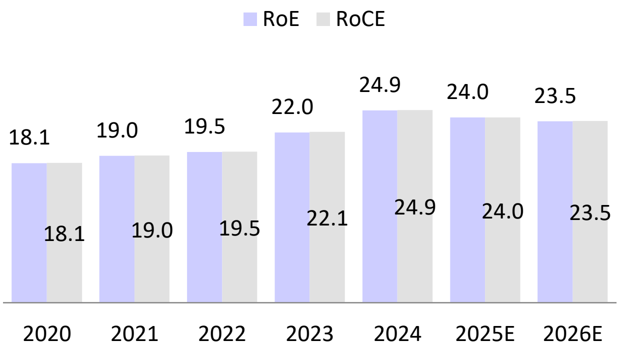
Source: MOFSL, Company

Exhibit 8: OCF & FCF to improve from FY25



Source: Company, MOFSL

Exhibit 9: RoE and RoCE to remain above 23%



Source: Company, MOFSL

Financials and valuation

Income Statement							(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Net Sales	**1,29,211**	**1,40,638**	**1,53,138**	**1,76,462**	**2,01,694**	**2,36,484**	**2,85,055**
Change (%)	6.9	8.8	8.9	15.2	14.3	17.2	20.5
Raw Materials	71,052	78,278	89,025	98,088	1,05,659	1,23,884	1,49,328
Gross Profit	**58,160**	**62,360**	**64,113**	**78,374**	**96,035**	**1,12,600**	**1,35,726**
Staff Cost	20,575	19,407	21,094	22,977	24,667	28,851	34,777
Other expenses	10,283	11,142	9,926	14,921	21,386	24,366	29,370
EBITDA	**27,301**	**31,811**	**33,092**	**40,475**	**49,982**	**59,383**	**71,580**
% of Net Sales	21.1	22.6	21.6	22.9	24.8	25.1	25.1
Depreciation	3,496	3,663	3,802	4,079	4,124	4,552	5,031
Interest	33	61	49	148	70	70	70
Other Income	1,019	1,261	2,336	3,600	7,558	9,792	12,725
PBT	**24,792**	**29,348**	**31,578**	**39,849**	**53,346**	**64,552**	**79,203**
Tax	6,853	8,694	8,089	9,782	13,146	15,907	19,517
Rate (%)	27.6	29.6	25.6	24.5	24.6	24.6	24.6
Adjusted PAT	**17,938**	**20,654**	**23,489**	**30,067**	**40,200**	**48,645**	**59,686**
Reported PAT	**17,938**	**20,654**	**23,489**	**30,067**	**40,200**	**48,645**	**59,686**
Change (%)	-6.9	15.1	13.7	28.0	33.7	21.0	22.7

Balance Sheet							(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Share Capital	2,437	2,437	2,437	7,310	7,310	7,310	7,310
Reserves	96,824	1,06,331	1,18,055	1,29,146	1,54,116	1,95,685	2,46,688
Net Worth	**99,261**	**1,08,768**	**1,20,492**	**1,36,455**	**1,61,426**	**2,02,995**	**2,53,998**
Loans	-	-	-	-	-	-	-
Deferred Tax Liability	(4,974)	(4,634)	(6,207)	(5,034)	(5,742)	(5,742)	(5,742)
Capital Employed	**94,287**	**1,04,134**	**1,14,285**	**1,31,422**	**1,55,684**	**1,97,253**	**2,48,256**
Gross Fixed Assets	42,815	45,103	50,090	55,847	60,414	67,914	73,914
Less: Depreciation	12,784	16,448	20,250	24,328	28,453	33,005	38,036
Net Fixed Assets	**30,030**	**28,655**	**29,840**	**31,518**	**31,962**	**34,909**	**35,878**
Capital WIP	1,994	3,507	3,986	3,616	4,538	4,538	4,538
Investments	12,233	13,313	15,543	6,645	7,678	7,678	7,678
Curr. Assets	**1,89,879**	**2,40,423**	**2,78,924**	**3,03,732**	**3,41,637**	**4,20,589**	**5,26,172**
Inventory	39,628	49,547	55,669	64,121	74,076	86,171	1,03,869
Debtors	40,055	65,515	61,034	70,220	73,622	93,946	1,13,241
Cash & Bank Balance	15,562	50,082	74,991	80,090	1,09,681	1,36,159	1,83,325
Loans & Advances	400	527	88	83	84	648	781
Other Current Assets	94,235	74,752	87,142	89,219	84,174	1,03,664	1,24,956
Current Liab. & Prov.	**1,39,850**	**1,81,764**	**2,14,008**	**2,14,089**	**2,30,131**	**2,70,461**	**3,26,010**
Liabilities	1,25,091	1,64,265	1,91,851	1,99,468	2,13,630	2,51,115	3,02,690
Provisions	14,759	17,499	22,157	14,621	16,500	19,347	23,320
Net Current Assets	**50,029**	**58,659**	**64,916**	**89,643**	**1,11,506**	**1,50,127**	**2,00,162**
Application of Funds	**94,287**	**1,04,134**	**1,14,285**	**1,31,422**	**1,55,684**	**1,97,253**	**2,48,256**

Financials and valuation

Ratios							
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Adjusted EPS	**7.4**	**8.5**	**9.6**	**4.1**	**5.5**	**6.7**	**8.2**
Growth (%)	-6.9	15.1	13.7	-57.3	33.7	21.0	22.7
Cash EPS	8.8	10.0	11.2	4.7	6.1	7.3	8.9
Book Value	40.7	44.6	49.5	18.7	22.1	27.8	34.7
DPS	3.1	3.4	4.2	1.7	0.8	1.0	1.2
Payout (incl. Div. Tax.)	42	40	44	41	15	15	15
Valuation (x)							
P/E (standalone)	37.2	32.3	28.4	66.5	49.8	41.1	33.5
Cash P/E	31.1	27.4	24.4	58.6	45.1	37.6	30.9
EV/EBITDA	23.9	19.4	17.9	47.5	37.8	31.4	25.4
EV/Sales	5.2	4.5	3.9	11.1	9.4	7.9	6.4
Price/Book Value	6.7	6.1	5.5	14.7	12.4	9.9	7.9
Dividend Yield (%)	1.1	1.2	1.5	0.6	0.3	0.4	0.4
Profitability Ratios (%)							
RoE	18.1	19.0	19.5	22.0	24.9	24.0	23.5
RoCE	18.9	19.9	20.5	23.5	27.0	26.7	26.1
RoIC	26.7	38.9	76.5	90.3	92.3	100.0	98.7
Turnover Ratios							
Debtors (Days)	113	170	145	145	133	145	145
Inventory (Days)	112	129	133	133	134	133	133
Fixed Asset Turnover (x)	2.9	3.1	3.0	3.1	3.3	3.5	3.9

Cash Flow Statement							(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
PBT before Extraordinary Items	**24,792**	**29,348**	**31,578**	**39,849**	**53,346**	**64,552**	**79,203**
Add : Depreciation	3,496	3,663	3,802	4,079	4,124	4,552	5,031
Interest and others	(292)	750	(1,241)	(2,046)	5,516	70	70
Less : Direct Taxes Paid	5,684	5,323	8,024	9,150	14,130	15,907	19,517
(Inc)/Dec in WC	3,013	22,597	15,498	(21,179)	(2,376)	(12,143)	(2,869)
CF from Operations	**25,325**	**51,035**	**41,612**	**11,552**	**46,480**	**41,125**	**61,918**
CF from Operations after EOI	**25,325**	**51,035**	**41,612**	**11,552**	**46,480**	**41,125**	**61,918**
(Inc)/Dec in FA	(7,264)	(4,664)	(5,461)	(5,621)	(6,423)	(7,500)	(6,000)
Free Cash Flow	**18,062**	**46,371**	**36,151**	**5,931**	**40,057**	**33,625**	**55,918**
(Pur)/Sale of Investments	(731)	(1,094)	(43,145)	33,442	(52,465)	-	-
CF from Investments	**(7,995)**	**(5,758)**	**(48,606)**	**27,820**	**(58,888)**	**(7,500)**	**(6,000)**
(Inc)/Dec in Networth	(250)	(83)	-	-	-	0	-
(Inc)/Dec in Debt	(13)	(16)	-	-	-	-	-
Less : Interest Paid	552	431	539	697	128	70	70
Dividend Paid	9,793	10,227	10,233	12,424	14,615	7,076	8,682
CF from Fin. Activity	**(10,608)**	**(10,757)**	**(10,772)**	**(13,121)**	**(14,743)**	**(7,147)**	**(8,753)**
Inc/Dec of Cash	**6,722**	**34,519**	**(17,766)**	**26,251**	**(27,152)**	**26,478**	**47,166**
Add: Beginning Balance and other adjustments	8,840	15,562	92,757	53,838	1,36,833	1,09,681	1,36,159
Closing Balance	**15,562**	**50,082**	**74,991**	**80,090**	**1,09,681**	**1,36,159**	**1,83,325**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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