

Bharat Electronics

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR270 TP: INR360 (+33%) Buy

Performance remains healthy, inflows to ramp up

Bharat Electronics (BHE)'s 2QFY25 results came ahead of our estimates, driven by better-than-expected margin performance. Revenue growth was led by a strong order book, which stood at INR746b. Order inflows stood at INR74b during 1HFY25. We expect defense ordering to start ramping up in the coming quarters. We expect BHE to remain a key beneficiary of the same, with key focus areas being from naval, EW systems, artillery systems, platform orders, Kavach, exports, et al. We expect BHE's revenue to grow at 19% CAGR over FY24-27, driven by improved market share on account of enhanced wallet share and improved indigenized offerings. We maintain our estimates and continue to value the company at 35x two-year forward earnings. Reiterate **BUY** with a TP of INR360.

Margin outperformance leads to a beat in PAT vs. our estimates

Revenue for the quarter stood at INR45.8b (up 14.8% YoY). This was driven by a strong order book of INR746b and an inflow of INR74b during 1HFY25. EBITDA grew 38% YoY, and the EBITDA margin was strong at 30.3% during 2QFY25 vs. our estimate of 23.3% for 2QFY25. Gross margin at 53.3% improved 450bp YoY and 780bp QoQ primarily due to improved product mix. Strong margin performance resulted in an 18% beat in PBT/PAT vs. our estimates; PAT stood at INR10.9b during 2QFY25 (up 34% YoY). Cash flow from operations has declined during the quarter due to the build-up of working capital, which can come down in coming quarters as inventory reduces and payments are released. BHE has done a capex of INR4.3b during 1HFY25. Revenue/EBITDA/ PAT grew 17%/39%/39% YoY in 1HFY25, and as per our forecast, we expect 2HFY25 revenue/EBITDA/PAT to rise 17%/17%/24% YoY.

Upcoming opportunities to continue to come from defense and non-defense

BHE has maintained its guidance of INR250b of order inflow for the full-year FY25. The company expects key orders to come from radar (INR25b), electronic warfare (INR20b), Atulya (INR20b), and Shakti EW (INR20b), as these projects are in the final stages of negotiation and will be awarded in 1-2 quarters. Significant opportunities are expected to come from naval projects, artillery projects, TR modules for Uttam radar, Kavach, etc. Apart from the base orders, we expect BHE to benefit from larger platform orders such as QRSAM, MRSAM, and other platform orders that will be finalized in the coming years. BHE is also eyeing opportunities from export markets and expects to bag nearly USD200m from regions like Asia, Egypt, Brazil, etc. Along with defense orders, BHE is continuously participating in non-defense sectors such as airports, metros, and smart cities. With the expected opportunities in the defense and non-defense sectors, we expect BHE to continue to maintain its market share and clock 15% CAGR over the next 4-5 years.

Bloomberg	BHE IN
Equity Shares (m)	7310
M.Cap.(INRb)/(USDb)	1974 / 23.5
52-Week Range (INR)	341 / 131
1, 6, 12 Rel. Per (%)	-1/4/76
12M Avg Val (INR M)	7988

Financials Snapshot (INR b)

Y/E March	2025E	2026E	2027E
Sales	236.5	285.1	336.0
Sales Gr. (%)	17.2	20.5	17.9
EBITDA	59.4	71.6	84.4
EBITDA Margin	25.1	25.1	25.1
Adj. PAT	48.6	59.7	72.2
Adj. EPS (INR)	6.7	8.2	9.9
EPS Gr. (%)	21.0	22.7	20.9
BV/Sh.(INR)	27.8	34.7	43.2

Ratios

RoE (%)	24.0	23.5	22.9
RoCE (%)	26.7	26.1	25.4
Payout (%)	14.5	14.5	14.5

Valuations

P/E (x)	40.6	33.1	27.4
P/BV (x)	9.7	7.8	6.3
EV/EBITDA (x)	30.9	25.0	20.5
Div. Yield (%)	0.4	0.4	0.5

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	51.1	51.1	51.1
DII	20.2	20.6	24.2
FII	17.3	17.4	17.2
Others	11.4	10.8	7.5

FII Includes depository receipts

Key order inflows announced so far

Key orders won during 1HFY25 include – INR11.5b worth of orders from AMC of Akash Missile System, Combat Management System for Ships, Missile Fire Control System for ships, Laser Range Finders, Communication Network Centre etc.; INR31.7b worth of orders from AVNL for supply and installation of an advanced, indigenously designed and developed Sighting and Fire Control System (FCS) for the upgrade of BMP 2/2K Tanks of the Indian Army, along with a comprehensive Engineering Support Package; orders worth INR8.5b from Cochin Shipyard for supply of indigenous multi-function radar in X-Band and, and INR3.1b orders among others including navigational complex system for ships, thermal imagers, communication equipment, fire control system, gun control system, spares, services, etc. Going forward, execution will be led by orders such as LRSAM, Himshakti, D29-EW systems, and the Akash project.

Financial outlook

We maintain our estimates and expect a sales/EBITDA/PAT CAGR of 19%/19%/22% over FY24-27. We expect OCF/FCF to remain strong over FY25-27, led by 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 33.1x/27.4x on FY26E/FY27E EPS. We maintain our estimates and continue to value the company at 35x two-year forward earnings.

Reiterate BUY with a TP of INR360.

Quarterly Earnings Model

Y/E March (INR m)	FY24				FY25				FY24	FY25E	FY25E 2QE	Est Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	35,108	39,933	41,367	85,285	41,988	45,834	49,662	99,001	2,01,694	2,36,484	47,297	(3)
Change (%)	12.8	1.2	0.1	32.1	19.6	14.8	20.1	16.1	14.3	17.2	18.4	
EBITDA	6,644	10,044	10,494	22,800	9,367	13,885	12,415	26,497	49,982	59,383	11,020	26
Change (%)	29.4	17.4	23.0	24.9	41.0	38.2	18.3	16.2	23.5	18.8	9.7	
As of % Sales	18.9	25.2	25.4	26.7	22.3	30.3	25.0	26.8	24.8	25.1	23.3	
Depreciation	1,013	1,004	998	1,109	997	1,032	1,110	1,413	4,124	4,552	1,084	(5)
Interest	11	15	5	39	12	13	18	28	70	70	18	(25)
Other Income	1,417	1,705	2,232	2,205	2,015	1,668	2,388	3,720	7,558	9,792	2,331	(28)
PBT	7,038	10,729	11,723	23,856	10,373	14,509	13,676	28,776	53,346	64,552	12,250	18
Tax	1,729	2,606	2,790	6,021	2,612	3,596	3,370	5,876	13,146	15,907	3,019	
Effective Tax Rate (%)	24.6	24.3	23.8	25.2	25.2	24.8	24.6	20.4	24.6	24.6	24.6	
Reported PAT	5,308	8,123	8,933	17,835	7,761	10,913	10,306	22,900	40,200	48,645	9,231	18
Change (%)	23.0	32.9	49.2	30.6	46.2	34.3	15.4	28.4	33.7	21.0	13.6	
Adj PAT	5,308	8,123	8,933	17,835	7,761	10,913	10,306	22,900	40,200	48,645	9,231	18
Change (%)	23.0	32.9	49.2	30.6	46.2	34.3	15.4	28.4	33.7	21.0	13.6	



Conference call highlights

Targeting revenue to grow from different SBUs:

To support its diversification strategy, the company formed five new SBUs (bringing the total to 29) in Jan'24, one of which was the EW Land Systems at Hyderabad and the rest four were in the areas of network & cyber security, unmanned systems, seekers and arms & ammunition in its Bengaluru complex. All these SBUs have now started generating revenue and In FY25, management targets EW Land Systems SBU to generate revenue of INR15b and all the other 4 SBUs in Bengaluru to generate revenue in the range of INR3.5-4.0b each.

Successful order execution:

BHE's revenue grew 17% YoY to INR87.8b in 1HFY24, of which the majority of the revenue originated from execution of orders from 5-6 main projects. Approximately, INR16b came from LRSAM, INR3b worth of order from Delhi's CBIC, INR3b worth of order execution for the IACCS, INR2.5b from EW system for Himshakti, INR2.35b from Hammer missile systems and, INR2b from Manpack Satcom Terminal for IAF & Army.

Future revenue growth to be led by LRSAM, Himshakti, EW Systems, and Akash:

BHE is continuously investing into R&D and expanding its product portfolio to offer new products to its customer. It is constantly looking for indigenization opportunities to increase its market and wallet share. BHE expects these areas to continue contributing to revenue growth in the second half. According to the management, ~INR16b is expected to come from LRSAM, INR8-9b from Himshakti, INR5b from the supply of D29-EW systems and, INR5b worth of items expected to be delivered for the Akash project.

Order inflows guidance intact

Order inflows in 1HFY25 were at INR74b and yet the company continues to maintain its full-year order inflow guidance of INR250b. Major orders that are expected to help achieve the said target are: INR25b from radar and INR20b each from EW suite for MI-17, ATULYA, and Himshakti Phase-4.

Increasing wallet share in Indian Naval

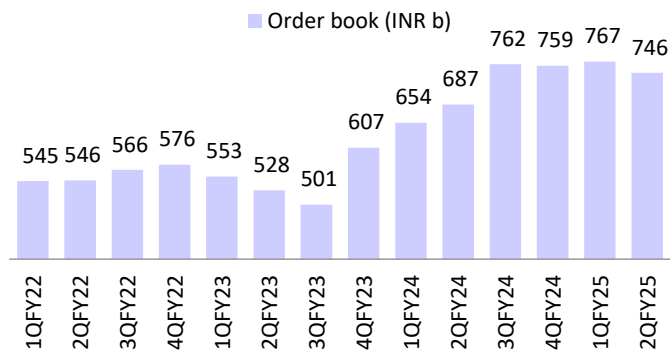
Management states that out of the three major defense services, naval segment is the most promising for the company. BHE is expanding its wallet share by increasing volumes, upgrading existing products and introducing new products by investing constantly into R&D.

Company guidance

For FY25, the management guides revenue growth of 15% YoY and EBITDA margin to be in the range of 23-25%. It targets to incur capex of INR7b and spend around INR13b in R&D in the year. Further, the company expects the share of revenue from defense and non-defense businesses to be 85:15, with the share of exports to increase from current 3% to 5-10% over the medium to long term.

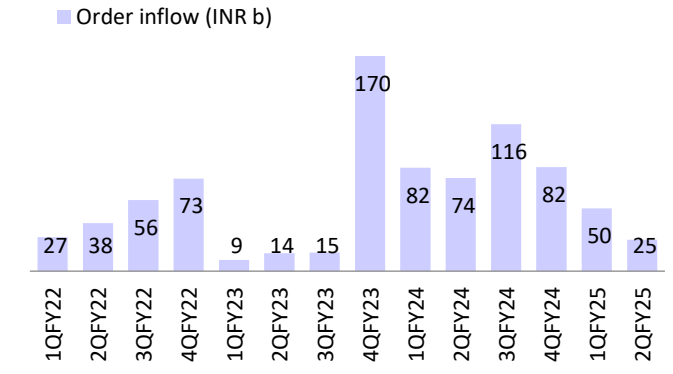
Key Exhibits

Exhibit 1: Order book continued to remain high



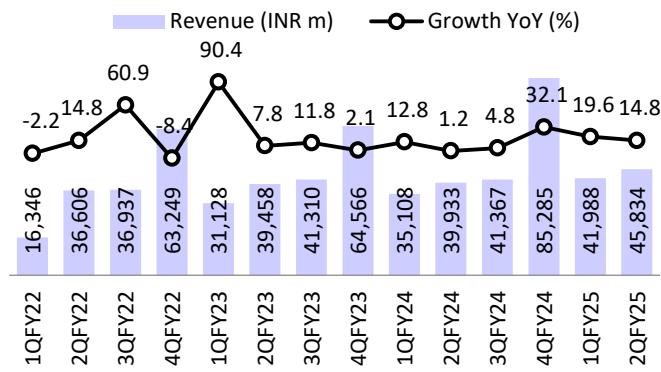
Source: MOFSL, Company

Exhibit 2: Order inflows declined YoY on a high base



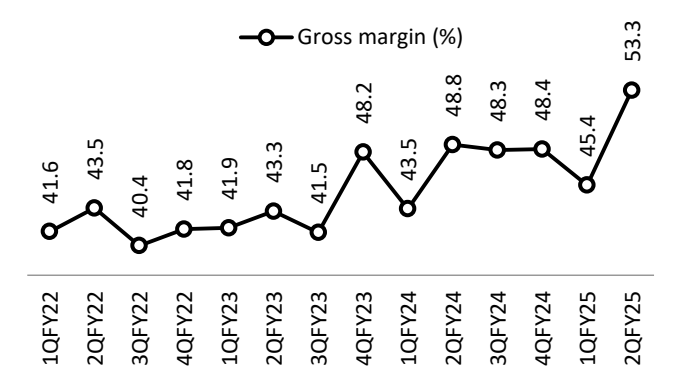
Source: MOFSL, Company

Exhibit 3: Revenue grew 15% YoY during 2QFY25



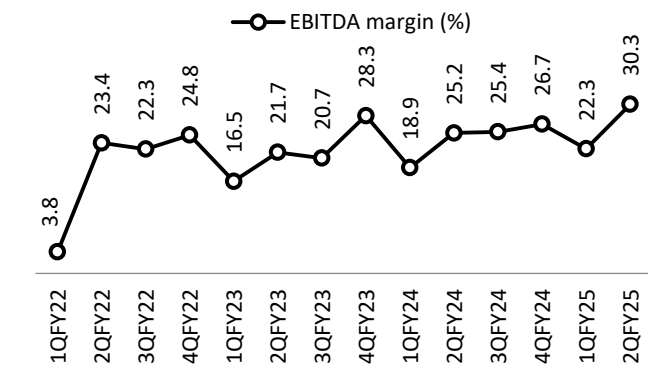
Source: MOFSL, Company

Exhibit 4: Gross margin at an all-time high during 2QFY25



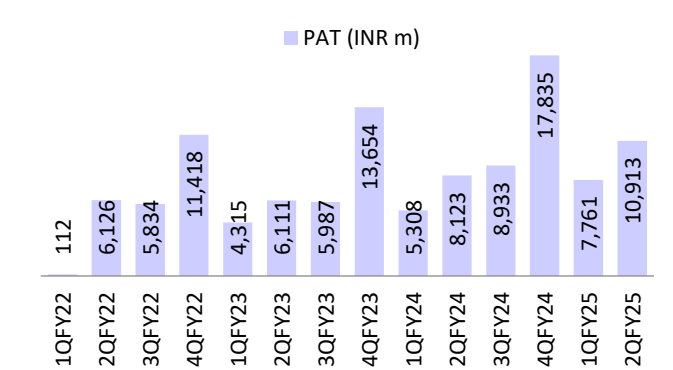
Source: MOFSL, Company

Exhibit 5: EBITDA margin peaked during the quarter



Source: MOFSL, Company

Exhibit 6: Healthy PAT growth of 34% YoY



Source: MOFSL, Company

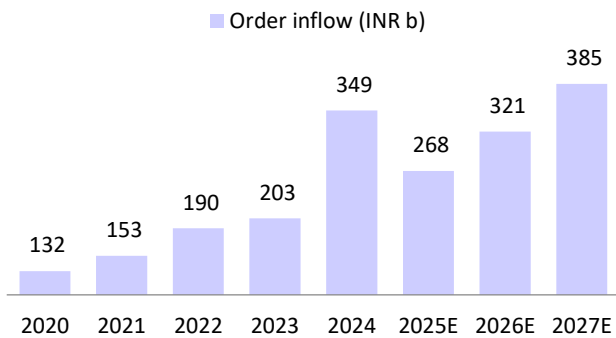
Exhibit 7: Key R&D initiatives taken by the company over the last few years, which will start yielding results over time

Strategic Partner	Area of Cooperation
Advanced Weapons and Equipment India Limited (AWEIL)	❖ Joint development and production of Air Defense Guns, Artillery Guns and Upgrades for Indian Defense and export market
Armoured Vehicles Nigam Ltd (AVNL), Chennai	❖ Joint development and production of Armoured Fighting Vehicles (AFV) and variants and upgrades for Indian Defense and export market
Munitions India Limited (MIL)	❖ Cooperation for Make in India Programs for Ammunition and related products
Safran Electronics & Defense	❖ Domestic manufacture/upgrade of sensors for naval platforms, precision guide munitions (PGMs) etc.
IAI, Israel	❖ Domestic manufacture of Weapon Systems
Aeronautical Design Agency (ADA), Bengaluru	❖ Joint Development of Onboard Computer (IWBC) and Other LRUs for Advanced Medium Combat Aircraft (AMCA)
Hindustan Shipyard Ltd	❖ Joint development and manufacturing of sub systems for Naval platforms, Unmanned Underwater Systems, etc.
Mazagon Dock Shipbuilders Ltd	❖ Joint development and manufacturing of Indigenous materials/equipment required for shipbuilding, submarine programs, and other platforms
Indian Institute of Science (IISc), Bengaluru	❖ Co-operate and work in areas of Artificial Intelligence (AI) and Machine Learning (ML)
AAI Delhi	❖ Joint development for Integrated Air Traffic Management (ATM) automation system and Advance Surface Movement & Guidance Control System (ASMGCS)
University of Agriculture Sciences	❖ Develop solution for Digital farming/agriculture
Smiths Detection Systems Pvt Ltd	❖ Domestic manufacturing and supply of high energy scanners
IIT Kanpur	❖ Joint development of various products
DIAT Pune	❖ M. Tech Course
IIT Palakkad	❖ M. Tech Course

Source: Company

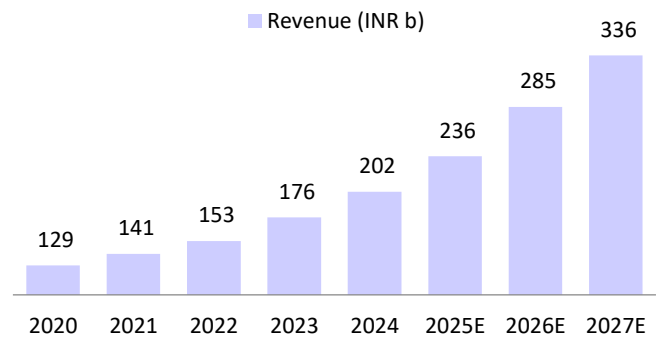
Financial outlook

Exhibit 8: We expect order inflows to decline in FY25 due to the high base of FY24



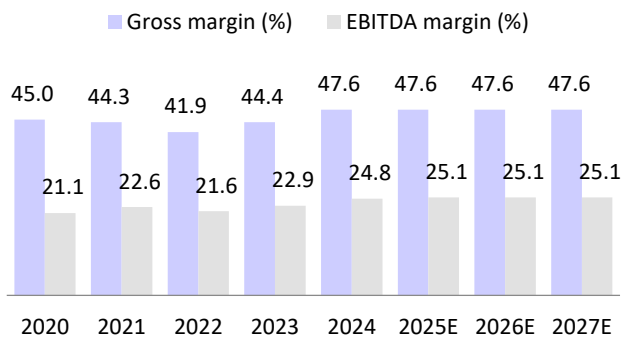
Source: MOFSL, Company

Exhibit 9: We expect a CAGR of 19% in revenue over FY24-27E driven by strong order book



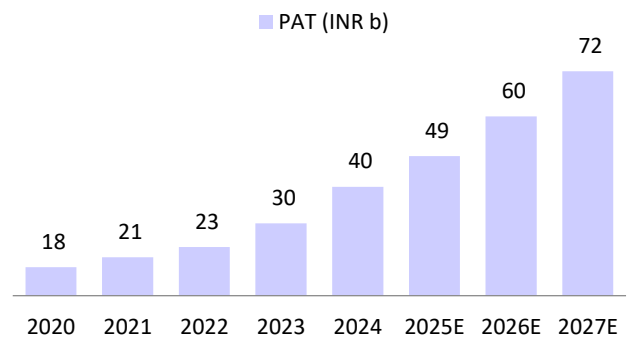
Source: MOFSL, Company

Exhibit 10: EBITDA margin to range around 25%



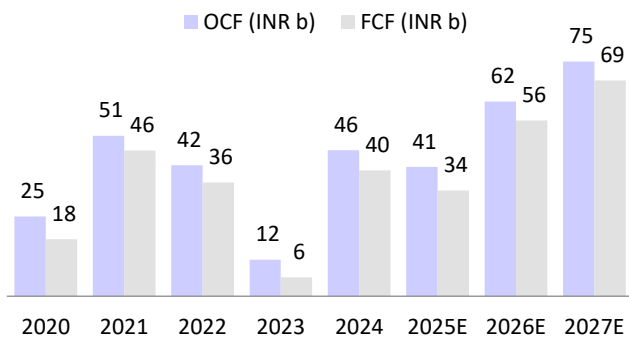
Source: MOFSL, Company

Exhibit 11: We expect a CAGR of 22% in PAT over FY24-27E



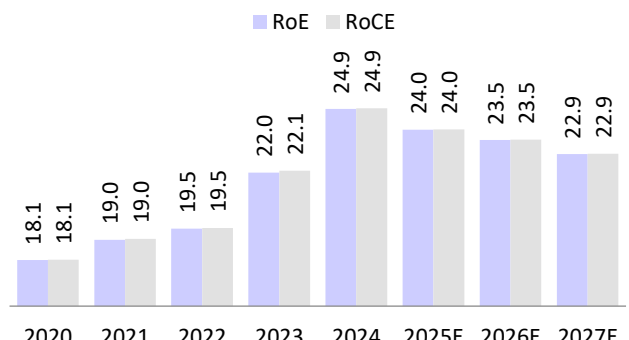
Source: MOFSL, Company

Exhibit 12: OCF & FCF to improve from FY25



Source: MOFSL, Company

Exhibit 13: RoE and RoCE to remain around 23%



Source: MOFSL, Company

Financials and valuation

Income Statement							(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Net Sales	1,40,638	1,53,138	1,76,462	2,01,694	2,36,484	2,85,055	3,36,024
Change (%)	8.8	8.9	15.2	14.3	17.2	20.5	17.9
Raw Materials	78,278	89,025	98,088	1,05,659	1,23,884	1,49,328	1,76,029
Gross Profit	62,360	64,113	78,374	96,035	1,12,600	1,35,726	1,59,995
Staff Cost	19,407	21,094	22,977	24,667	28,851	34,777	40,995
Other expenses	11,142	9,926	14,921	21,386	24,366	29,370	34,621
EBITDA	31,811	33,092	40,475	49,982	59,383	71,580	84,379
% of Net Sales	22.6	21.6	22.9	24.8	25.1	25.1	25.1
Depreciation	3,663	3,802	4,079	4,124	4,552	5,031	5,457
Interest	61	49	148	70	70	70	70
Other Income	1,261	2,336	3,600	7,558	9,792	12,725	16,918
PBT	29,348	31,578	39,849	53,346	64,552	79,203	95,770
Tax	8,694	8,089	9,782	13,146	15,907	19,517	23,600
Rate (%)	29.6	25.6	24.5	24.6	24.6	24.6	24.6
Adjusted PAT	20,654	23,489	30,067	40,200	48,645	59,686	72,170
Reported PAT	20,654	23,489	30,067	40,200	48,645	59,686	72,170
Change (%)	15.1	13.7	28.0	33.7	21.0	22.7	20.9

Balance Sheet							(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Share Capital	2,437	2,437	7,310	7,310	7,310	7,310	7,310
Reserves	1,06,331	1,18,055	1,29,146	1,54,116	1,95,685	2,46,688	3,08,359
Net Worth	1,08,768	1,20,492	1,36,455	1,61,426	2,02,995	2,53,998	3,15,669
Loans	-	-	-	-	-	-	-
Deferred Tax Liability	(4,634)	(6,207)	(5,034)	(5,742)	(5,742)	(5,742)	(5,742)
Capital Employed	1,04,134	1,14,285	1,31,422	1,55,684	1,97,253	2,48,256	3,09,928
Gross Fixed Assets	45,103	50,090	55,847	60,414	67,914	73,914	79,914
Less: Depreciation	16,448	20,250	24,328	28,453	33,005	38,036	43,493
Net Fixed Assets	28,655	29,840	31,518	31,962	34,909	35,878	36,421
Capital WIP	3,507	3,986	3,616	4,538	4,538	4,538	4,538
Investments	13,313	15,543	6,645	7,678	7,678	7,678	7,678
Curr. Assets	2,40,423	2,78,924	3,03,732	3,41,637	4,20,589	5,26,172	6,45,593
Inventory	49,547	55,669	64,121	74,076	86,171	1,03,869	1,22,442
Debtors	65,515	61,034	70,220	73,622	93,946	1,13,241	1,33,489
Cash & Bank Balance	50,082	74,991	80,090	1,09,681	1,36,159	1,83,325	2,41,443
Loans & Advances	527	88	83	84	648	781	921
Other Current Assets	74,752	87,142	89,219	84,174	1,03,664	1,24,956	1,47,298
Current Liab. & Prov.	1,81,764	2,14,008	2,14,089	2,30,131	2,70,461	3,26,010	3,84,302
Liabilities	1,64,265	1,91,851	1,99,468	2,13,630	2,51,115	3,02,690	3,56,813
Provisions	17,499	22,157	14,621	16,500	19,347	23,320	27,490
Net Current Assets	58,659	64,916	89,643	1,11,506	1,50,127	2,00,162	2,61,290
Application of Funds	1,04,134	1,14,285	1,31,422	1,55,684	1,97,253	2,48,256	3,09,928

Financials and valuation

Ratios							
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
Adjusted EPS	8.5	9.6	4.1	5.5	6.7	8.2	9.9
Growth (%)	15.1	13.7	-57.3	33.7	21.0	22.7	20.9
Cash EPS	10.0	11.2	4.7	6.1	7.3	8.9	10.6
Book Value	44.6	49.5	18.7	22.1	27.8	34.7	43.2
DPS	3.4	4.2	1.7	0.8	1.0	1.2	1.4
Payout (incl. Div. Tax.)	40	44	41	15	15	15	15
Valuation (x)							
P/E (standalone)	31.9	28.0	65.7	49.1	40.6	33.1	27.4
Cash P/E	27.1	24.1	57.8	44.5	37.1	30.5	25.4
EV/EBITDA	19.1	17.6	46.8	37.3	30.9	25.0	20.5
EV/Sales	4.4	3.9	10.9	9.2	7.8	6.3	5.2
Price/Book Value	6.0	5.5	14.5	12.2	9.7	7.8	6.3
Dividend Yield (%)	1.3	1.6	0.6	0.3	0.4	0.4	0.5
Profitability Ratios (%)							
RoE	19.0	19.5	22.0	24.9	24.0	23.5	22.9
RoCE	19.9	20.5	23.5	27.0	26.7	26.1	25.4
RoIC	38.9	76.5	90.3	92.3	100.0	98.7	109.1
Turnover Ratios							
Debtors (Days)	170	145	145	133	145	145	145
Inventory (Days)	129	133	133	134	133	133	133
Fixed Asset Turnover (x)	3.1	3.0	3.1	3.3	3.5	3.9	4.2

Cash Flow Statement							(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
PBT before Extraordinary Items	29,348	31,578	39,849	53,346	64,552	79,203	95,770
Add : Depreciation	3,663	3,802	4,079	4,124	4,552	5,031	5,457
Interest and others	750	(1,241)	(2,046)	5,516	70	70	70
Less : Direct Taxes Paid	5,323	8,024	9,150	14,130	15,907	19,517	23,600
(Inc)/Dec in WC	22,597	15,498	(21,179)	(2,376)	(12,143)	(2,869)	(3,011)
CF from Operations	51,035	41,612	11,552	46,480	41,125	61,918	74,686
CF from Operations after EOI	51,035	41,612	11,552	46,480	41,125	61,918	74,686
(Inc)/Dec in FA	(4,664)	(5,461)	(5,621)	(6,423)	(7,500)	(6,000)	(6,000)
Free Cash Flow	46,371	36,151	5,931	40,057	33,625	55,918	68,686
(Pur)/Sale of Investments	(1,094)	(43,145)	33,442	(52,465)	-	-	-
CF from Investments	(5,758)	(48,606)	27,820	(58,888)	(7,500)	(6,000)	(6,000)
(Inc)/Dec in Networth	(83)	-	-	-	0	-	0
(Inc)/Dec in Debt	(16)	-	-	-	-	-	-
Less : Interest Paid	431	539	697	128	70	70	70
Dividend Paid	10,227	10,233	12,424	14,615	7,076	8,682	10,498
CF from Fin. Activity	(10,757)	(10,772)	(13,121)	(14,743)	(7,147)	(8,753)	(10,569)
Inc/Dec of Cash	34,519	(17,766)	26,251	(27,152)	26,478	47,166	58,118
Add: Beginning Balance and other adjustments	15,562	92,757	53,838	1,36,833	1,09,681	1,36,159	1,83,325
Closing Balance	50,082	74,991	80,090	1,09,681	1,36,159	1,83,325	2,41,443

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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 within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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