Bharat Electronics (BHE IN)

Rating: BUY | CMP: Rs270 | TP: Rs341

October 29, 2024

Q2FY25 Result Update

■ Change in Estimates | ■ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	**BUY**		**ACCUMULATE**	
Target Price	**341**		**341**	
Sales (Rs. m)	2,78,975	3,15,002	2,78,975	3,15,002
% Chng.	-	-		
EBITDA (Rs. m)	69,855	79,192	69,855	79,192
% Chng.	-	-		
EPS (Rs.)	7.6	8.6	7.6	8.6
% Chng.	-	-		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	2,01,694	2,36,566	2,78,975	3,15,002
EBITDA (Rs. m)	49,982	57,935	69,855	79,192
Margin (%)	*24.8*	*24.5*	*25.0*	*25.1*
PAT (Rs. m)	40,200	45,945	55,317	62,510
EPS (Rs.)	5.5	6.3	7.6	8.6
Gr. (%)	*33.7*	*14.3*	*20.4*	*13.0*
DPS (Rs.)	2.2	2.5	3.0	4.1
Yield (%)	*0.8*	*0.9*	*1.1*	*1.5*
RoE (%)	*27.1*	*26.3*	*26.7*	*25.6*
RoCE (%)	*30.8*	*30.6*	*31.5*	*30.5*
EV/Sales (x)	9.2	7.8	6.6	5.8
EV/EBITDA (x)	37.3	32.0	26.4	23.0
PE (x)	49.1	43.0	35.7	31.6
P/BV (x)	12.3	10.4	8.8	7.5

Key Data	BAJE.BO | BHE IN
52-W High / Low	Rs.341 / Rs.131
Sensex / Nifty	80,005 / 24,339
Market Cap	Rs.1,974bn/ $ (2,14,68,26,273)m
Shares Outstanding	7,310m
3M Avg. Daily Value	Rs.7422.47m

Shareholding Pattern (%)

Promoter's	51.14
Foreign	17.27
Domestic Institution	20.22
Public & Others	11.37
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.0)	13.0	104.3
Relative	(1.6)	4.2	62.9

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Strong quarter; robust outlook remains intact

Quick Pointers:

- Order book as on 1st Oct'24 stood at Rs746bn (3.6x TTM sales), while order intake for the quarter was ~Rs23bn.
- The management re-affirmed the guidance of ~15% revenue growth with 23-25% EBITDA margin and ~Rs250bn order intake for FY25.

We upgrade the rating to 'Buy' factoring in the recent sharp correction in stock price with an unchanged TP of Rs341. Bharat Electronics (BEL) reported strong quarterly performance with revenue growth of 14.8% YoY and EBITDA margins expanding by 514bps YoY to 30.3%. Opportunities in defense are expected to sustain for the next 5 years. The company is on track to meet its full-year order intake guidance of Rs250bn, including Rs85bn+ worth of order from programs such as Ashwini Radar, EW suite MI-17, ADFCR-ATULYA and Shakti Phase-4. QRSAM is in advanced stages of finalization and is expected to be awarded in Q1FY26, potentially adding another Rs250bn+ to the order inflow in FY26. Further opportunities are available in Uttam Radars for LCA Mk1A, artillery systems being developed by private players, naval products and Kavach for the Indian Railways. The company has streamlined LRSAM and other big-ticket items, leading to easing up of supply chain disruptions and better execution. Additionally, 85%-88% of the products supplied are indigenized, and further indigenization efforts are expected to drive margin expansion.

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 43.0x/35.7x on earnings of FY25/26E. We value the stock at a PE of 45x FY26E (same as earlier).

Gross margin expansion and higher other income drove PAT growth: Standalone revenue rose 14.8% YoY to Rs45.8bn (PLe: Rs47.0bn). Gross margin expanded by 449bps YoY to 53.4% (PLe: 45.2%). EBITDA grew 38.2% YoY to Rs13.9bn (PLe: Rs11.0bn). EBITDA margin increased by 514bps YoY to 30.3% (PLe: 23.4%) led by the gross margin expansion and employee cost leverage (down 68bps YoY as a % of sales). PBT grew 35.2% YoY to Rs14.5bn (PLe: Rs11.7bn). PAT rose 34.3% YoY to Rs10.9bn (PLe: Rs8.8bn) driven by the strong operating performance, despite lower other income (-2.2% YoY to Rs1.7bn).

Order book stands strong at ~Rs746bn (3.6x TTM sales): Order intake for the quarter stood at ~Rs23bn, including a major order worth Rs8.5bn from Cochin Shipyard for the supply of indigenous multifunction radar in X band. Other key orders include order from TRDS for manufacturing and supply of transmit/receive modules used in fighter aircrafts, orders for combat management systems, communication equipment, stabilized optronic pedestal, and navigational systems. Non-defense accounts for 11.4% of the total order book.

Exhibit 1: Adj PAT growth led by strong operating performance, despite lower other income (-2.2% YoY to Rs1.7bn)

Rs mn	Q2FY25	Q2FY24	YoY gr. (%)	Q2FY25E	% Var.	Q1FY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Revenue	**45,834**	**39,933**	***14.8%***	**47,023**	***-2.5%***	**41,988**	***9.2%***	**87,822**	**75,042**	***17.0%***
Gross Profit	24,418	19,482	*25.3%*	21,254	*14.9%*	19,081	*28.0%*	43,499	34,746	*25.2%*
Margin (%)	*53.3*	*48.8*	*449*	*45.2*	*807.5*	*45.4*	*783*	*49.5*	*46.3*	*323*
Employee Cost	6,500	5,934	*9.5%*	6,724	*-3.3%*	6,608	*-1.6%*	13,108	12,171	*7.7%*
as % of sales	*14.2*	*14.9*	*(68)*	*14.3*	*(11.8)*	*15.7*	*(156)*	*14.9*	*16.2*	*(129)*
Other expenditure	4,032	3,504	*15.1%*	3,527	*14.3%*	3,106	*29.8%*	7,139	5,887	*21.3%*
as % of sales	*8.8*	*8.8*	*2*	*7.5*	*129.8*	*7.4*	*140*	*8.1*	*7.8*	*28*
EBITDA	**13,885**	**10,044**	***38.2%***	**11,003**	***26.2%***	**9,367**	***48.2%***	**23,253**	**16,688**	***39.3%***
Margin (%)	*30.3*	*25.2*	*514*	*23.4*	*689.5*	*22.3*	*798*	*26.5*	*22.2*	*424*
Depreciation	1,032	1,004	*2.7%*	1,050	*-1.8%*	997	*3.4%*	2,029	2,017	*0.6%*
EBIT	**12,854**	**9,039**	***42.2%***	**9,953**	***29.1%***	**8,370**	***53.6%***	**21,224**	**14,671**	***44.7%***
Margin (%)	*28.0*	*22.6*	*541*	*21.2*	*687.7*	*19.9*	*811*	*24.2*	*19.6*	*462*
Other Income	1,668	1,705	*-2.2%*	1,800	*-7.3%*	2,015	*-17.2%*	3,683	3,122	*18.0%*
Interest	13	15	*-12.6%*	10	*32.0%*	12	*11.9%*	25	26	*-3.1%*
PBT (ex. Extra-ordinaries)	14,509	10,729	*35.2%*	11,743	*23.5%*	10,373	*39.9%*	24,882	17,767	*40.0%*
Margin (%)	*31.7*	*26.9*	*479*	*25.0*	*668.1*	*24.7*	*695*	*28.3*	*23.7*	*466*
Extraordinary Items	-	-		-	-	-	-	-	-	-
PBT	**14,509**	**10,729**	***35.2%***	**11,743**	***23.5%***	**10,373**	***39.9%***	**24,882**	**17,767**	***40.0%***
Total Tax	3,596	2,606	*38.0%*	2,936	-	2,612	*37.7%*	6,208	4,335	*43.2%*
Effective Tax Rate (%)	*24.8*	*24.3*	*50*	*25.0*	-	*25.2*	-	*24.9*	*24.4*	*55*
Reported PAT	**10,913**	**8,123**	***34.3%***	**8,808**	***23.9%***	**7,761**	***40.6%***	**18,674**	**13,432**	***39.0%***
Adj. PAT	**10,913**	**8,123**	***34.3%***	**8,808**	***23.9%***	**7,761**	***40.6%***	**18,674**	**13,432**	***39.0%***
Margin (%)	*23.8*	*20.3*	*347*	*18.7*	*507.9*	*18.5*	*532*	*21.3*	*17.9*	*336*
Adj. EPS	**1.5**	**1.1**	***34.3%***	**1.2**	***23.9%***	**1.1**	***40.6%***	**2.6**	**1.8**	***39.0%***

Source: Company, PL

Conference Call Highlights

- **The management retained FY25 guidance** of ~15% revenue growth with 40-42% gross margin and 23-25% EBITDA margin. The management expects order inflow of ~Rs250bn in FY25 with a total estimated capex of Rs8.0bn. Defense/Non-defense mix remains 85%/15%.

- **Key projects executed in H1FY25 include:** 1) LRSAM (Rs16bn), 2) CBIC IT Infra (Rs3bn), 3) IACCS (Rs3bn), 4) Shakti EW systems (Rs2.5bn), 5) hammer missile systems (Rs2.4bn) and 6) Manpack SATCOM Terminal (Rs2bn).

- **Major orders expected in H2FY25 include:** 1) Ashwini Radar (~Rs25bn), 2) EW MI 17 (~Rs20bn), 3) Air Defence Fire Control Radar (ADFCR)-ATULYA (~Rs20bn), and 4) Shakti Phase-4 (~Rs20bn).

- **Key projects to be executed in H2FY25 include:** 1) LRSAM (~Rs16bn+), 2) EW Himshakti (~Rs8.5bn), 3) Instrumented EW Range (~Rs7.5bn), 4) Akash Army (~Rs5bn), 5) D29 EW System (~Rs5bn), and 6) Weapon locating radar planes (~Rs4.5bn).

- **Exports accounted for ~3% of revenue mix in H1FY25,** while management targets to achieve ~5% export mix to the revenue by FY26. Company currently has an export order book worth USD403mn (~Rs33.9bn) and is expecting to win more export orders worth USD200mn+ (~Rs16.8bn) in FY25. BEL has leads for orders worth more than USD500mn from diversified geography including regions such as Asia and countries like Egypt and Brazil.

- **QRSAM order expected by Q1FY26:** In the QRSAM program, configurations and the scope of work has been finalized. Once it gets the approval from the concerned authority, BEL expects the RFP to be issued to them by Q1FY26. QRSAM order is expected to amount between ~Rs250-300bn.

- **Non-Defense order book stands at Rs84.8bn (11.4% of total order book).** While company aims to maintain Defense/Non-Defense mix of 85%/15%, it is getting healthy inquiries for its non-defense portfolio. Company is L1 in one of the orders for its D4 systems for BSF and has also won a different order for a security related project.

- **Kavach Systems:** The company has received a prototype order from Indian Railways and is currently in the development phase of the Kavach system. The development and execution of this project will be evaluated by Indian Railways, and upon successful approval, BEL will be eligible to participate in bulk manufacturing orders for Kavach.

- **Strategic Business Units (SBUs):** Company's EW land systems SBU is expected to cross revenue of Rs15bn in FY25. Other four recently established SBUs namely, Speaker SBU, Arms & Ammunition, Unmanned Systems & Network and Cyber security SBU are expected to surpass Rs3.5bn of revenue each. Company has also started directly supplying services of Network and Cyber Security SBU to DRDO.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**2,01,694**	**2,36,566**	**2,78,975**	**3,15,002**
YoY gr. (%)	*14.3*	*17.3*	*17.9*	*12.9*
Cost of Goods Sold	1,05,659	1,31,294	1,54,273	1,73,881
Gross Profit	96,035	1,05,272	1,24,702	1,41,121
Margin (%)	*47.6*	*44.5*	*44.7*	*44.8*
Employee Cost	24,667	26,732	31,245	35,280
Other Expenses	4,075	13,957	15,762	17,798
EBITDA	**49,982**	**57,935**	**69,855**	**79,192**
YoY gr. (%)	*23.5*	*15.9*	*20.6*	*13.4*
Margin (%)	*24.8*	*24.5*	*25.0*	*25.1*
Depreciation and Amortization	4,124	4,203	4,425	4,618
EBIT	**45,857**	**53,732**	**65,431**	**74,573**
Margin (%)	*22.7*	*22.7*	*23.5*	*23.7*
Net Interest	70	42	44	46
Other Income	7,558	7,570	8,369	8,820
Profit Before Tax	**53,346**	**61,260**	**73,756**	**83,347**
Margin (%)	*26.4*	*25.9*	*26.4*	*26.5*
Total Tax	13,146	15,315	18,439	20,837
Effective tax rate (%)	*24.6*	*25.0*	*25.0*	*25.0*
Profit after tax	**40,200**	**45,945**	**55,317**	**62,510**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**40,200**	**45,945**	**55,317**	**62,510**
YoY gr. (%)	*33.7*	*14.3*	*20.4*	*13.0*
Margin (%)	*19.9*	*19.4*	*19.8*	*19.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**40,200**	**45,945**	**55,317**	**62,510**
YoY gr. (%)	*33.7*	*14.3*	*20.4*	*13.0*
Margin (%)	*19.9*	*19.4*	*19.8*	*19.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	40,200	45,945	55,317	62,510
Equity Shares O/s (m)	**7,310**	**7,310**	**7,310**	**7,310**
EPS (Rs)	**5.5**	**6.3**	**7.6**	**8.6**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**54,345**	**61,441**	**71,024**	**81,024**
Tangibles	54,345	61,441	71,024	81,024
Intangibles	-	-	-	-
Acc: Dep / Amortization	**27,353**	**31,556**	**35,981**	**40,599**
Tangibles	27,353	31,556	35,981	40,599
Intangibles	-	-	-	-
Net fixed assets	**26,991**	**29,885**	**35,043**	**40,425**
Tangibles	26,991	29,885	35,043	40,425
Intangibles	-	-	-	-
Capital Work In Progress	9,509	10,412	10,829	10,829
Goodwill	-	-	-	-
Non-Current Investments	7,891	9,723	11,466	12,947
Net Deferred tax assets	5,742	5,742	5,742	5,742
Other Non-Current Assets	2,512	5,204	5,858	6,300
Current Assets				
Investments	-	-	-	-
Inventories	74,076	85,553	99,361	1,10,467
Trade receivables	73,622	86,201	1,00,125	1,12,193
Cash & Bank Balance	1,09,681	1,19,591	1,31,961	1,53,802
Other Current Assets	78,630	91,078	1,06,011	1,18,126
Total Assets	**3,85,815**	**4,40,864**	**5,04,309**	**5,69,056**
Equity				
Equity Share Capital	7,310	7,310	7,310	7,310
Other Equity	1,53,514	1,81,916	2,17,393	2,56,314
Total Networth	**1,60,824**	**1,89,226**	**2,24,702**	**2,63,624**
Non-Current Liabilities				
Long Term borrowings	603	603	603	603
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	23	23	23	23
Trade payables	36,937	41,480	48,152	53,507
Other current liabilities	1,93,171	2,15,275	2,36,571	2,57,042
Total Equity & Liabilities	**3,85,815**	**4,40,864**	**5,04,309**	**5,69,056**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	53,346	61,260	73,756	83,347
Add. Depreciation	4,124	4,203	4,425	4,618
Add. Interest	70	42	44	46
Less Financial Other Income	7,558	7,570	8,369	8,820
Add. Other	(5,720)	-	-	-
Op. profit before WC changes	51,821	65,505	78,225	88,012
Net Changes-WC	(2,376)	(12,910)	(15,836)	(10,257)
Direct tax	(14,130)	(15,315)	(18,439)	(20,837)
Net cash from Op. activities	**35,315**	**37,280**	**43,950**	**56,917**
Capital expenditures	(6,423)	(8,000)	(10,000)	(10,000)
Interest / Dividend Income	5,328	-	-	-
Others	(57,794)	(1,784)	(1,696)	(1,441)
Net Cash from Invt. activities	**(58,889)**	**(9,784)**	**(11,696)**	**(11,441)**
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(14,615)	(17,543)	(19,840)	(23,589)
Interest paid	(70)	(42)	(44)	(46)
Others	(58)	-	-	-
Net cash from Fin. activities	**(14,743)**	**(17,586)**	**(19,884)**	**(23,635)**
Net change in cash	**(38,317)**	**9,910**	**12,369**	**21,841**
Free Cash Flow	28,844	29,280	33,950	46,917

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	**41,367**	**85,285**	**41,988**	**45,834**
YoY gr. (%)	*0.1*	*32.1*	*19.6*	*14.8*
Raw Material Expenses	21,370	43,994	22,906	21,416
Gross Profit	19,997	41,292	19,081	24,418
Margin (%)	*48.3*	*48.4*	*45.4*	*53.3*
EBITDA	**10,494**	**22,800**	**9,367**	**13,885**
YoY gr. (%)	*23.0*	*24.9*	*41.0*	*38.2*
Margin (%)	*25.4*	*26.7*	*22.3*	*30.3*
Depreciation / Depletion	998	1,109	997	1,032
EBIT	**9,496**	**21,690**	**8,370**	**12,854**
Margin (%)	*23.0*	*25.4*	*19.9*	*28.0*
Net Interest	5	39	12	13
Other Income	2,232	2,205	2,015	1,668
Profit before Tax	**11,723**	**23,856**	**10,373**	**14,509**
Margin (%)	*28.3*	*28.0*	*24.7*	*31.7*
Total Tax	2,790	6,021	2,612	3,596
Effective tax rate (%)	*23.8*	*25.2*	*25.2*	*24.8*
Profit after Tax	**8,933**	**17,835**	**7,761**	**10,913**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**8,933**	**17,835**	**7,761**	**10,913**
YoY gr. (%)	*49.2*	*30.6*	*46.2*	*34.3*
Margin (%)	*21.6*	*20.9*	*18.5*	*23.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**8,933**	**17,835**	**7,761**	**10,913**
YoY gr. (%)	*49.2*	*30.6*	*46.2*	*34.3*
Margin (%)	*21.6*	*20.9*	*18.5*	*23.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**8,933**	**17,835**	**7,761**	**10,913**
Avg. Shares O/s (m)	7,310	7,310	7,310	7,310
EPS (Rs)	**1.2**	**2.4**	**1.1**	**1.5**

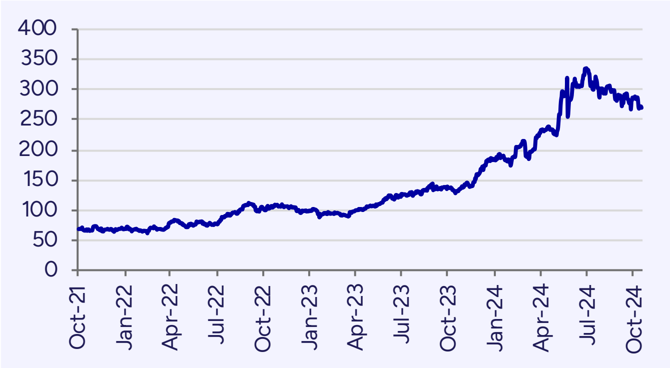
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	5.5	6.3	7.6	8.6
CEPS	6.1	6.9	8.2	9.2
BVPS	22.0	25.9	30.7	36.1
FCF	3.9	4.0	4.6	6.4
DPS	2.2	2.5	3.0	4.1
Return Ratio(%)				
RoCE	30.8	30.6	31.5	30.5
ROIC	88.0	71.9	64.9	61.5
RoE	27.1	26.3	26.7	25.6
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	200	201	198	196
Valuation(x)				
PER	49.1	43.0	35.7	31.6
P/B	12.3	10.4	8.8	7.5
P/CEPS	44.5	39.4	33.0	29.4
EV/EBITDA	37.3	32.0	26.4	23.0
EV/Sales	9.2	7.8	6.6	5.8
Dividend Yield (%)	0.8	0.9	1.1	1.5

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	341	277
2	30-Jul-24	Accumulate	341	321
3	08-Jul-24	Hold	290	324
4	23-May-24	Hold	290	284
5	12-Apr-24	Hold	182	229
6	01-Feb-24	Hold	182	186
7	09-Jan-24	Accumulate	143	184
8	31-Oct-23	Accumulate	143	133

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,833	7,930
2	Apar Industries	BUY	10,399	9,514
3	BEML	Accumulate	4,484	3,664
4	Bharat Electronics	Accumulate	341	277
5	BHEL	Reduce	264	268
6	Carborundum Universal	Hold	1,650	1,469
7	Cummins India	Accumulate	4,081	3,624
8	Engineers India	BUY	250	188
9	GE T&D India	Hold	1,601	1,661
10	Grindwell Norton	Accumulate	2,749	2,441
11	Harsha Engineers International	Hold	566	502
12	Hindustan Aeronautics	Hold	4,515	4,257
13	Kalpataru Projects International	Accumulate	1,413	1,348
14	KEC International	Hold	880	1,032
15	Larsen & Toubro	BUY	4,130	3,494
16	Praj Industries	BUY	804	761
17	Siemens	Accumulate	7,374	7,247
18	Thermax	Reduce	4,186	5,193
19	Triveni Turbine	BUY	719	671
20	Voltamp Transformers	Accumulate	14,922	12,236

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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(Indian Clients)

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