

Bharat Electronics

Estimate changes



TP change



Rating change



CMP: INR186

TP: INR190 (+2%)

Neutral

Higher margins drive PAT beat; growth priced in

BEL's 3QFY24 EBITDA margin and PAT came in ahead of our estimates despite weak revenue growth. Near-term challenges in the supply chain affected BEL's revenue growth. Order inflows surpassed the company's guidance due to the up-fronting of orders during the quarter. We expect BEL to be a key beneficiary of the increasing defense indigenization. However, we believe the current stock price already bakes in 15%/16% CAGRs over FY23-26 in order inflows/revenue, including large orders such as QRSAM, hence lacks re-rating potential in the near term. The finalization of large orders will be positive for the company; however, they will also have an elongated execution period. We, thus, maintain our Neutral rating on BEL with a revised TP of INR190 based on 29xMar'26E EPS and would look for better entry points in the stock.

Better-than-expected margins drive a beat in PAT

BEL's revenue at INR41.4b (flat YoY/+4% QoQ) came in below our estimates of INR51.4b owing to weaker-than-expected execution. Revenue growth has not kept pace with order inflow growth in recent quarters due to supply chain-related challenges. In 3Q, BEL faced supply chain issues in Israel, which led to INR5b miss in revenue booking. EBITDA grew by 23% YoY to INR10.4b, aided by better-than-expected gross margin at 48.3% (up ~680bp YoY). As a result, EBITDA margin expanded ~470bp YoY to 25.4% (management maintains full year guidance of ~21-23%). PAT at INR8.9b (+49% YoY) beat our estimates on the back of lower-than-expected depreciation, a lower effective tax rate, and higher other income (+288% YoY). Order inflows stood at INR272b in 9MFY24 vs. INR37.3b in 9MFY23, mainly due to the government's continued focus on defense indigenization and up-fronting of orders before the elections. As a result, the order book increased by 52% YoY to INR762b (4.2x TTM revenue).

Strong order inflows in 9MFY24, much ahead of initial guidance

BEL announced strong inflows of INR272b in 9MFY24. These inflows have been diversified across various items of defense, such as supply of fuses, NGOPV, radars, platforms, etc. The order pipeline also remains strong and BEL expects defense orders from EW system, BMP upgrade, avionics, QRSAM, etc. The company has given order inflow guidance of INR250b for FY25/FY26 each, which also includes a QRSAM package of INR200b. The inflow pipeline from the non-defense segment will be driven mainly by air traffic management, metros, cyber security, EVM, and VVPAT. The company is already working with AIIMS to enhance cyber security systems and with the Ministry of Health on IT infrastructure upgrade-related projects. The company has maintained its revenue growth guidance of 15% for FY24 despite a muted performance in 9MFY24; this calls for a high ask rate for revenue for 4QFY24.

Bloomberg	BHE IN
Equity Shares (m)	7310
M.Cap.(INRb)/(USDb)	1358.9 / 16.4
52-Week Range (INR)	196 / 88
1, 6, 12 Rel. Per (%)	1/32/73
12M Avg Val (INR M)	2217

Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	201.7	239.2	271.6
EBITDA	46.0	54.6	61.9
PAT	35.3	40.5	45.3
EPS (INR)	4.8	5.5	6.2
GR. (%)	17.5	14.6	11.9
BV/Sh (INR)	21.5	24.8	28.4

Ratios

ROE (%)	22.5	22.4	21.8
RoCE (%)	24.1	24.0	23.4

Valuations

P/E (X)	38.5	33.6	30.0
P/BV (X)	8.6	7.5	6.5
EV/EBITDA (X)	28.3	23.6	20.5
Div Yield (%)	1.1	1.2	1.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.1	51.1	51.1
DII	23.4	24.2	25.1
FII	17.8	17.2	17.3
Others	7.7	6.7	6.5

FII Includes depository receipts

Supply chain issues to gradually ease out

BEL's revenue was impacted by supply chain issues in Israel, which led to a spill-over of INR5b in revenue to 4Q. Israel accounts for around INR45b of the current order book, which includes projects such as LRSAM, EW system, and electro optics. The company is working with partners in Israel to tide over the issue. BEL is also indigenizing components that it is procuring from Russia such as tank electronics, which will reduce its dependence from next year. The Red Sea issue does not have a major impact on BEL's supply chain. However, semiconductor-related issues do impact the company.

BEL is a key beneficiary of increasing defense indigenization

Based on the breadth of offerings, BEL is a key beneficiary of the product import embargo lists released by the Ministry of Defense. It has a presence across products such as different types of radars, simulators, EW systems, electronic fuses, thermal imaging, integrated air command and control system, border surveillance system, and counter-drone systems, which will be indigenized over the next five years. We expect BEL to be a key beneficiary of an opportunity potential of INR5t from all four import embargo lists released so far.

Financial outlook

We expect a CAGR of 16%/15%/15% in sales/EBITDA/PAT over FY23-26. We expect OCF/FCF to remain strong over FY23-26 given its control over working capital. Further, the company had a cash surplus of INR39b (as of FY23), providing scope for further expansion in capacities.

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

BEL is currently trading at 33.6x/30.0x on FY25E/FY26E EPS. With a large addressable market of nearly INR5t over the next 5-7 years from the defense indigenization and the scope of improvement in non-defense segments, we expect the company to benefit from the same. We value BEL at P/E of 29x Mar'26E EPS and revise our TP to INR190. We maintain a Neutral rating on the stock.

Quarterly Earning Model

Y/E March	FY23				FY24				FY23	FY24E	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	31,128	39,458	41,310	64,566	35,108	39,933	41,367	85,306	1,76,462	2,01,714	51,378	(19)
Change (%)	90.4	7.8	11.8	2.1	12.8	1.2	0.1	32.1	15.2	14.3	24.4	
EBITDA	5,134	8,558	8,535	18,248	6,644	10,044	10,494	18,826	40,475	46,008	11,560	(9)
Change (%)	716.8	(0.1)	3.8	16.4	29.4	17.4	23.0	3.2	22.3	13.7	35.4	
As of % Sales	16.5	21.7	20.7	28.3	18.9	25.2	25.4	22.1	22.9	22.8	22.5	
Depreciation	941	1,042	1,008	1,088	1,013	1,004	998	1,555	4,079	4,570	1,276	(22)
Interest	10	17	97	23	11	15	5	117	148	148	61	(92)
Other Income	1,597	750	575	678	1,417	1,705	2,232	560	3,600	5,913	348	541
PBT	5,781	8,249	8,004	17,815	7,038	10,729	11,723	17,714	39,849	47,204	10,571	11
Tax	1,466	2,138	2,017	4,161	1,729	2,606	2,790	4,756	9,782	11,881	2,664	
Effective Tax Rate (%)	25.4	25.9	25.2	23.4	24.6	24.3	23.8	26.9	24.5	25.2	25.2	
Reported PAT	4,315	6,111	5,987	13,654	5,308	8,123	8,933	12,958	30,067	35,323	7,907	13
Change (%)	3,769.5	(0.2)	2.6	19.6	23.0	32.9	49.2	(5.1)	28.0	17.5	32.1	
Adj PAT	4,315	6,111	5,987	13,654	5,308	8,123	8,933	12,958	30,067	35,323	7,907	13
Change (%)	3,769.5	(0.2)	2.6	19.6	23.0	32.9	49.2	(5.1)	28.0	17.5	32.1	

Key Exhibits

Exhibit 1: Order book at record high

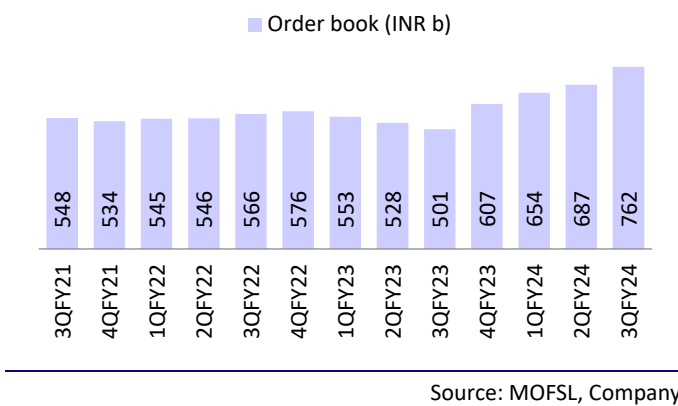


Exhibit 2: Uptick in order inflows due to order up-fronting

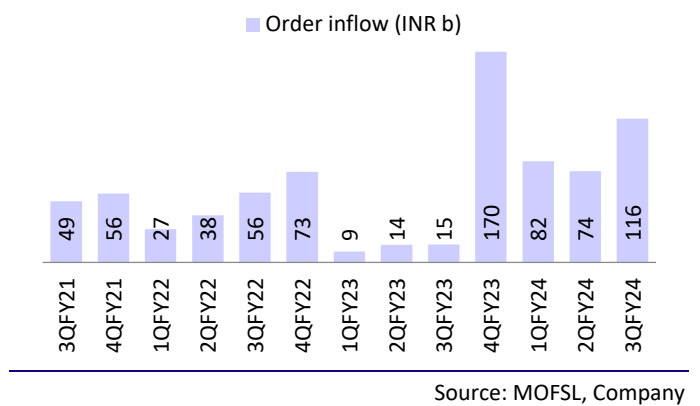


Exhibit 3: Revenue growth has not kept up with order wins

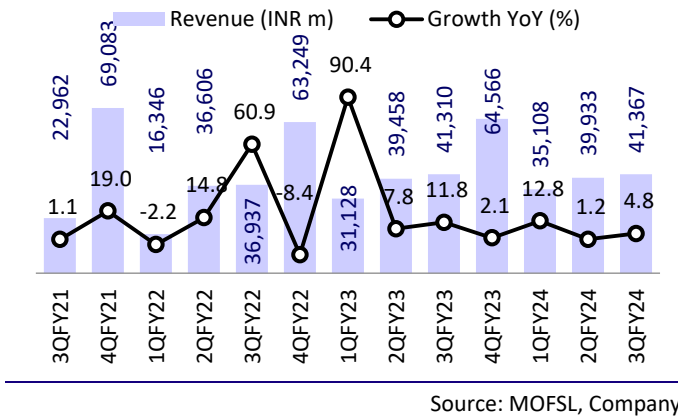


Exhibit 4: Gross margin trend

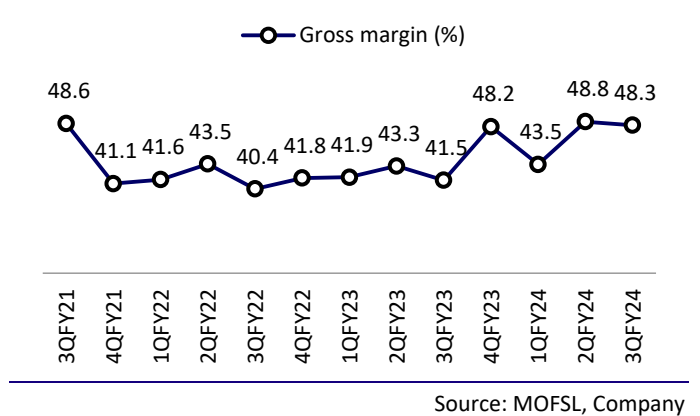
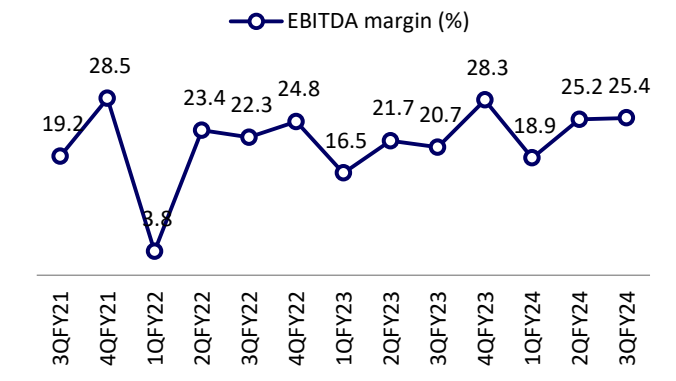
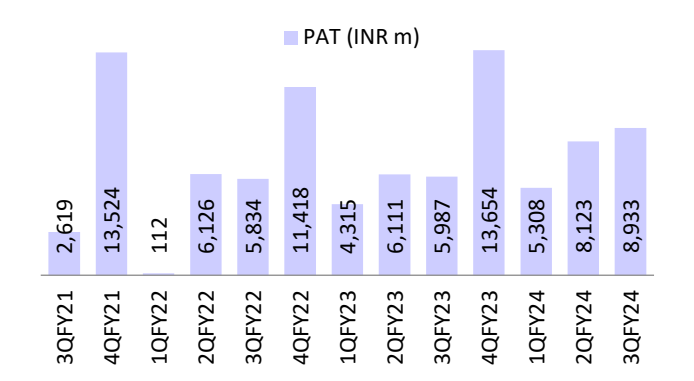


Exhibit 5: EBITDA margin trend



Source: MOFSL, Company

Exhibit 6: PAT trend



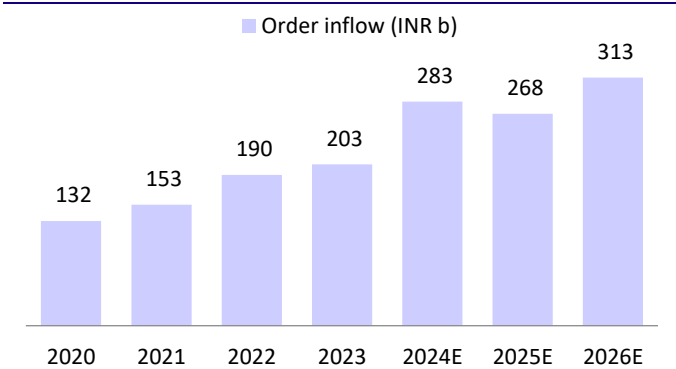
Source: MOFSL, Company

Exhibit 7: Changes in estimates

(INR M)	FY24E			FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,01,714	2,05,514	(1.8)	2,39,247	2,36,567	1.1	2,71,561	2,71,213	0.1
EBITDA	46,008	46,875	(1.8)	54,569	53,958	1.1	61,939	61,860	0.1
EBITDA (%)	22.8	22.8	0 bps	22.8	22.8	0 bps	22.8	22.8	0 bps
Adj. PAT	35,323	34,403	2.7	40,470	38,563	4.9	45,289	44,023	2.9
EPS (INR)	4.8	4.7	2.7	5.5	5.3	4.9	6.2	6.0	2.9

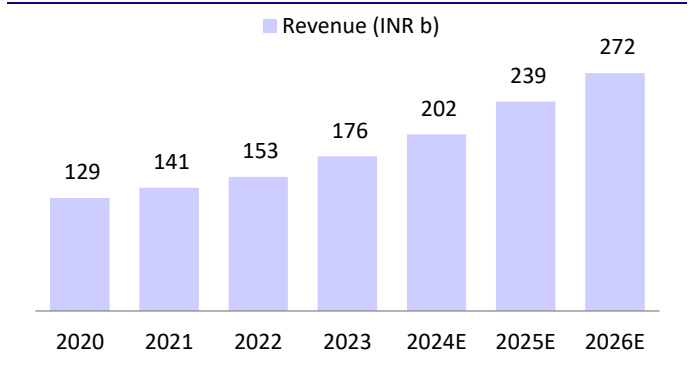
Source: MOFSL

Exhibit 8: We expect a CAGR of 15% in order inflows over FY23-26E



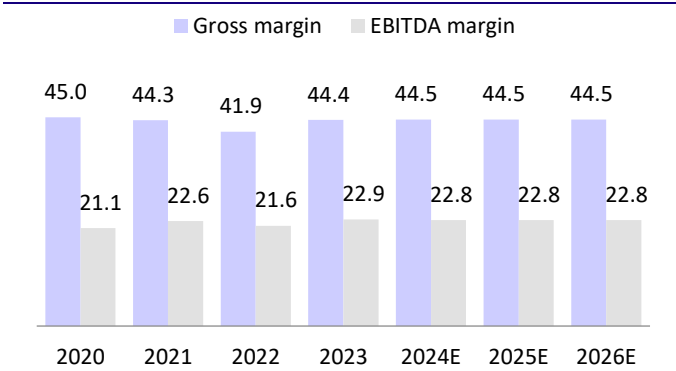
Source: MOFSL, Company

Exhibit 9: We expect a CAGR of 16% in revenue over FY23-26E



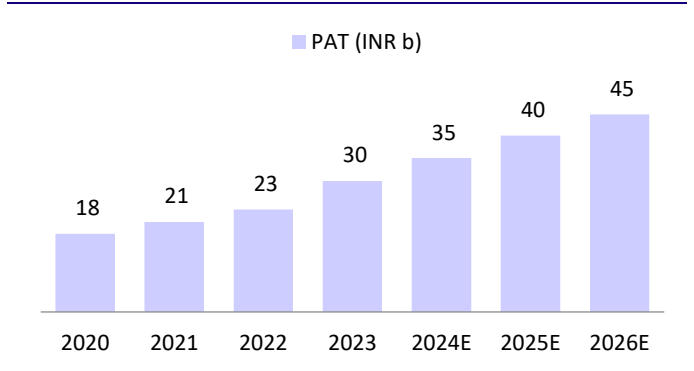
Source: MOFSL, Company

Exhibit 10: We expect EBITDA margin to range between 22-23%



Source: MOFSL, Company

Exhibit 11: We expect a CAGR of 15% in PAT over FY23-26E



Source: MOFSL, Company

Financials and Valuation

Income Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Net Sales	1,29,211	1,40,638	1,53,138	1,76,462	2,01,714	2,39,247	2,71,561	
change%	6.9	8.8	8.9	15.2	14.3	18.6	13.5	
Gross Profit	27,301	31,811	33,092	40,475	46,008	54,569	61,939	
Gross margin%	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Total Expense	1,01,910	1,08,827	1,20,045	1,35,987	1,55,706	1,84,678	2,09,621	
EBITDA	27,301	31,811	33,092	40,475	46,008	54,569	61,939	
EBITDA Margin%	21.1	22.6	21.6	22.9	22.8	22.8	22.8	
Depreciation	3,496	3,663	3,802	4,079	4,570	5,128	5,648	
EBIT	23,805	28,148	29,291	36,397	41,438	49,441	56,291	
Interest and finance charge	33	61	49	148	148	148	148	
other income	1,019	1,261	2,336	3,600	5,913	4,790	4,379	
PBT Before EO	24,792	29,348	31,578	39,849	47,204	54,083	60,522	
PBT after EO	24,792	29,348	31,578	39,849	47,204	54,083	60,522	
Total Tax	6,853	8,694	8,089	9,782	11,881	13,613	15,233	
Tax Rate%	27.6	29.6	25.6	24.5	25.2	25.2	25.2	
Minority Interest	-	-	-	-	-	-	-	
Reported PAT	17,938	20,654	23,489	30,067	35,323	40,470	45,289	
Adjusted PAT	17,938	20,654	23,489	30,067	35,323	40,470	45,289	
change%	(6.9)	15.1	13.7	28.0	17.5	14.6	11.9	
margin%	0.1	0.1	0.2	0.2	0.2	0.2	0.2	

E: MOFSL estimates

Balance Sheet								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Equity Share Capital	2,437	2,437	2,437	7,310	7,310	7,310	7,310	
Total Reserves	96,824	1,06,331	1,18,055	1,29,146	1,49,869	1,73,612	2,00,182	
Net worth	99,261	1,08,768	1,20,492	1,36,455	1,57,179	1,80,922	2,07,492	
Other Liability + Def Tax Liabilities	(4,974)	(4,634)	(6,207)	(5,034)	(5,034)	(5,034)	(5,034)	
Minority Interest	-	-	-	-	-	-	-	
Capital Employed	94,287	1,04,134	1,14,285	1,31,422	1,52,145	1,75,888	2,02,458	
Gross Block	42,815	45,103	50,090	55,847	62,847	70,347	76,347	
Less: Accum Dep	12,784	16,448	20,250	24,328	28,898	34,026	39,674	
Fixed Asset (Net Block)	30,030	28,655	29,840	31,518	33,948	36,320	36,672	
CWIP	1,994	3,507	3,986	3,616	3,616	3,616	3,616	
Goodwill	-	-	-	-	-	-	-	
Total Investment	12,233	13,313	15,543	6,645	6,645	6,645	6,645	
Curr. Assets Loans & Advances	1,74,317	1,90,341	2,03,932	2,23,642	2,75,234	3,26,446	3,70,538	
Inventory	39,628	49,547	55,669	64,121	73,296	86,934	98,676	
Account Receivables	40,055	65,515	61,034	70,220	93,967	1,11,451	1,26,505	
Cash and Bank	15,562	50,082	74,991	80,090	56,745	68,592	86,609	
Loans and Advances	400	527	88	83	756	897	1,018	
Current Liab and Provision	1,39,850	1,81,764	2,14,008	2,14,089	2,24,043	2,65,730	3,01,621	
Account Payables	-	-	-	-	-	-	-	
Other current liabilities	1,25,091	1,64,265	1,91,851	1,99,468	1,98,945	2,35,962	2,67,832	
Provision	-	-	-	-	-	-	-	
Net Current Assets	34,467	8,577	(10,075)	9,553	51,191	60,716	68,916	
Application of Funds	94,287	1,04,134	1,14,285	1,31,422	1,52,145	1,75,888	2,02,458	

E: MOFSL estimates

Financials and Valuation

Ratios							
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	7.4	8.5	9.6	4.1	4.8	5.5	6.2
Cash EPS	8.8	10.0	11.2	4.7	5.5	6.2	7.0
Book Value	40.7	44.6	49.5	18.7	21.5	24.8	28.4
DPS	3.1	3.4	4.2	1.7	2.0	2.3	2.6
Payout (incl. div. text)	42.1	40.0	43.6	41.3	41.3	41.3	41.3
Valuation (X)							
P/E	25.3	21.9	19.3	45.2	38.5	33.6	30.0
Cash P/E	21.1	18.6	16.6	39.8	34.1	29.8	26.7
Price/ Book Value	4.6	4.2	3.8	10.0	8.6	7.5	6.5
EV/Sales	3.5	2.9	2.5	7.4	6.6	5.4	4.7
EV/EBITDA	16.0	12.7	11.4	31.6	28.3	23.6	20.5
Div Yield (%)	1.7	1.8	2.3	0.9	1.1	1.2	1.4
Profitability Ratios (%)							
ROE%	18.1	19.0	19.5	22.0	22.5	22.4	21.8
ROCE%	18.9	19.9	20.5	23.5	24.1	24.0	23.4
Turnover Ratios (x)							
Asset Turnover (x)	1.4	1.4	1.4	1.4	1.4	1.5	1.4
Debtors (No. of days)	113	170	170	170	170	170	170
Inventory (No. of days)	112	129	133	133	133	133	133
Leverage Ratios (%)							
Net Debt/ Equity (x)	(0.2)	(0.5)	(0.6)	(0.6)	(0.4)	(0.4)	(0.4)

E: MOFSL estimates

Cash Flow Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Adj EBITDA	27,301	31,811	33,092	40,475	46,008	54,569	61,939	
Non Cash Op. Exp (Inc)	987	1,200	2,287	3,452	5,765	4,642	4,231	
(Inc)/Dec in Wkg Cap	3,013	22,597	15,498	(21,179)	(41,638)	(9,525)	(8,201)	
Tax Paid	(5,684)	(5,323)	(8,024)	(9,150)	(11,881)	(13,613)	(15,233)	
Other Operating Activites	(292)	750	(1,241)	(2,046)	148	148	148	
CF. From Op Activity	25,325	51,035	41,612	11,552	(1,597)	36,221	42,884	
(Inc)/Dec in FA & CWIP	(7,264)	(4,664)	(5,461)	(5,621)	(7,000)	(7,500)	(6,000)	
Free Cashflows	18,062	46,371	36,151	5,931	(8,597)	28,721	36,884	
(Pur)/ Sale of inv	(731)	(1,094)	(43,145)	33,442	-	-	-	
others	-	-	-	-	-	-	-	
CF. From Inv Activity	(731)	(1,094)	(43,145)	33,442	-	-	-	
(Inc)/ Dec in net worth	(250)	(83)	-	-	-	-	-	
(Inc)/dec in Debt	(13)	(16)	-	-	-	-	-	
Interest Paid	(552)	(431)	(539)	(697)	(148)	(148)	(148)	
Dividend Paid (Incl.tax)	(9,793)	(10,227)	(10,233)	(12,424)	(14,599)	(16,727)	(18,719)	
CF. From Fin Activity	(10,608)	(10,757)	(10,772)	(13,121)	(14,747)	(16,875)	(18,866)	
(Inc)/dec in cash	6,722	34,519	(17,766)	26,251	(23,345)	11,846	18,018	
Add: Opening Balance	8,840	15,562	92,757	53,838	80,090	56,745	68,592	
Closing Balance	15,562	50,082	74,991	80,090	56,745	68,592	86,609	

E: MOFSL estimates

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Explanation of Investment Rating	
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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

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