

Bharat Electronics

Estimate changes



TP change



Rating change



CMP: INR259

TP: INR310 (+20%)

Upgrade to Buy

Robust all-round performance

BHE's 4QFY24 results beat our estimates, driven by better-than-expected EBITDA margin and PAT and strong revenue growth. Up-fronting of order inflows led to a beat in overall order inflows for the company. We expect BHE to be a key beneficiary of increasing defense indigenization. The share of indigenization in the Indian defense sector has been continuously moving up and we expect BHE's revenue market share to remain high at around 12-13%. The company is continuously taking initiatives to increase the share of exports and non-defense revenues. We incorporate higher margins and increase our estimates by 21%/32% for FY25/FY26. We increase the valuation multiple to account for a larger market share of BHE, benefits of technology tie-ups, MoUs, and an improving share of exports and non-defense in total revenues. We value BHE at 35x P/E on two-year forward earnings and revise the target price to INR310. We upgrade the stock to BUY from Neutral earlier.

Margin outperformance drives PAT beat

BHE's 4Q revenue at INR85.3b (+32% YoY/+106% QoQ) came in line with our estimates owing to robust execution. EBITDA grew by 25% YoY to INR22.8b, aided by better-than-expected gross margin at 48.4% (flat YoY). On a high base, EBITDA margin contracted ~160bp YoY to 26.7%. PAT at INR17.8b (+31% YoY) beat our estimates on the back of better margins, lower-than-expected depreciation, and higher other income (+225% YoY). Order inflows stood at INR82.4b in 4QFY24, a decline of 52% YoY on a high base. The order book increased by 25% YoY to INR760b (3.8x TTM revenue). For FY24, the company reported revenue/EBITDA/PAT growth of 14%/23%/34% and it exceeded margin guidance of 22-23% (actual: 24.8%). Order inflow grew by 74% to INR354b. FCF grew by 575% to INR40b on improved OCF.

Strong FY24 inflows of INR350b took order book to record high of INR760b

In FY24, BHE successfully secured orders worth around INR350b. Key defense orders were 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. As a result, the order book surged to INR760b, which included export order book of USD407m (vs. USD211m in FY23). The company achieved exports of USD93m (up 92% YoY), including exports of key products such as transmit & receive (TR) modules, compact multi-purpose advanced stabilization system (compass), radar & EW systems, medical electronics, communication equipment, etc.

	BHE IN
Bloomberg	
Equity Shares (m)	7310
M.Cap.(INRb)/(USD\$b)	1891.8 / 22.7
52-Week Range (INR)	261 / 106
1, 6, 12 Rel. Per (%)	10/63/116
12M Avg Val (INR M)	3674

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)	47.1	38.9	31.7
P/BV (X)	11.7	9.3	7.5
EV/EBITDA (X)	35.7	29.6	23.9
Div Yield (%)	0.3	0.4	0.5

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

BHE to remain a key beneficiary of defense indigenization and rising defense exports

BHE has a market share of 12% in the overall defense market and a market share of nearly 60% in the highly specialized defense electronics segment. We expect BHE to remain a key beneficiary of defense indigenization potential worth INR5t over the next five years with its presence across defense platforms and products ranging from radars, simulators, EW systems, electronic fuses, thermal imaging, integrated air command and control system, border surveillance system and counter drone systems etc. The share of indigenization in the Indian defense sector has been continuously moving up and we expect BHE's revenue market share to remain high at around 12-13%. The company is continuously taking initiatives to increase the share of exports and non-defense revenue, which will reduce its dependence on only domestic defense.

Financial outlook

We increase our earnings estimates by 21%/32% to factor in the government's continued measures for the defense sector and the company's improving market share, better-than-expected gross margin, and working capital. We expect a CAGR of 19%/20%/22% in sales/EBITDA/PAT over FY24-26. 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 39x/32x on FY25E/FY26E EPS. Our revised valuation multiple takes into account a larger market share of BHE, benefit of technology tie-ups, MoUs, and an improving share of exports and non-defense in total revenues. We value BHE at 35x P/E on two-year forward earnings and revise the target price to INR310, which bakes in a 19% CAGR in revenue over the next decade vs. 11% CAGR over the last decade. We upgrade the stock to BUY from Neutral earlier.

Quarterly Earning Model

Y/E March (INR m)	FY23				FY24				FY23	FY24	FY24E	Est Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	31,128	39,458	41,310	64,566	35,108	39,933	41,367	85,285	1,76,462	2,01,694	85,306	(0)
Change (%)	90.4	7.8	11.8	2.1	12.8	1.2	0.1	32.1	15.2	14.3	32.1	
EBITDA	5,134	8,558	8,535	18,248	6,644	10,044	10,494	22,800	40,475	49,982	20,440	12
Change (%)	716.8	(0.1)	3.8	16.4	29.4	17.4	23.0	24.9	22.3	23.5	12.0	
As of % Sales	16.5	21.7	20.7	28.3	18.9	25.2	25.4	26.7	22.9	24.8	24.0	
Depreciation	941	1,042	1,008	1,088	1,013	1,004	998	1,109	4,079	4,124	1,555	(29)
Interest	10	17	97	23	11	15	5	39	148	70	117	(66)
Other Income	1,597	750	575	678	1,417	1,705	2,232	2,205	3,600	7,558	1,647	34
PBT	5,781	8,249	8,004	17,815	7,038	10,729	11,723	23,856	39,849	53,346	20,414	17
Tax	1,466	2,138	2,017	4,161	1,729	2,606	2,790	6,021	9,782	13,146	5,436	
Effective Tax Rate (%)	25.4	25.9	25.2	23.4	24.6	24.3	23.8	25.2	24.5	24.6	26.6	
Reported PAT	4,315	6,111	5,987	13,654	5,308	8,123	8,933	17,835	30,067	40,200	14,978	19
Change (%)	3,769.5	(0.2)	2.6	19.6	23.0	32.9	49.2	30.6	28.0	33.7	9.7	
Adj PAT	4,315	6,111	5,987	13,654	5,308	8,123	8,933	17,835	30,067	40,200	14,978	19
Change (%)	3,769.5	(0.2)	2.6	19.6	23.0	32.9	49.2	30.6	28.0	33.7	9.7	

Key Exhibits

Exhibit 1: Order book close to a record high (INR b)

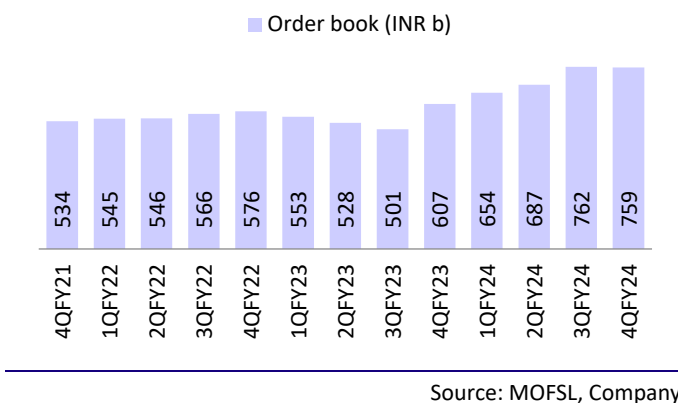


Exhibit 2: Order inflows decline YoY on a high base (INR b)

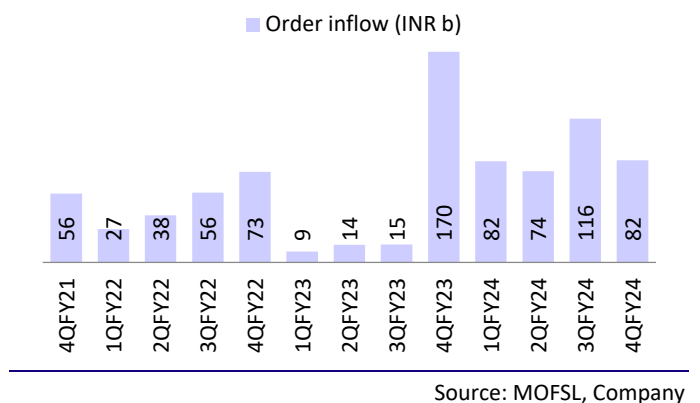


Exhibit 3: Revenue grew by 32% YoY (INR m)

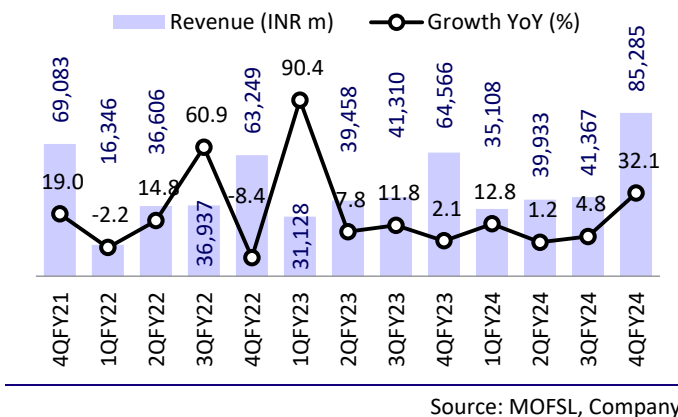


Exhibit 4: Gross margin remained strong over last 3 quarters

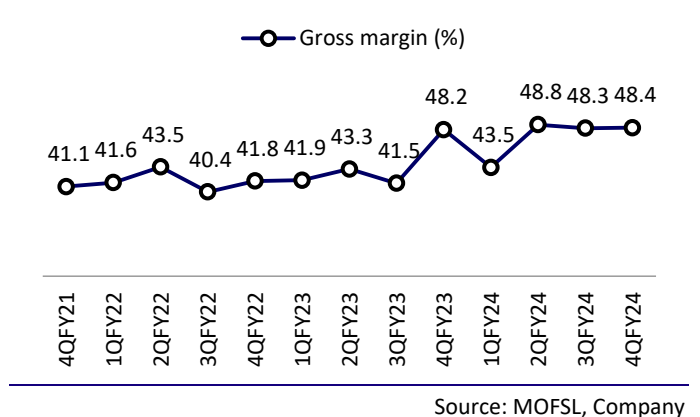
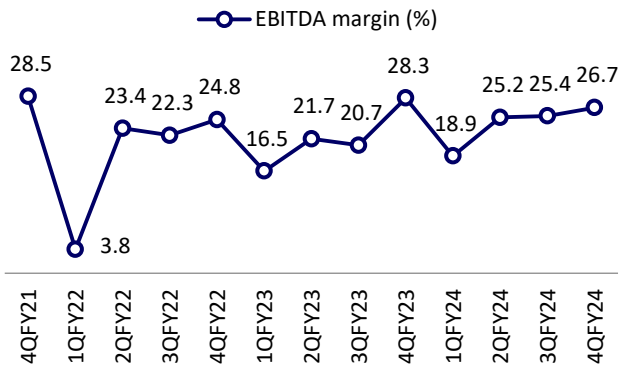
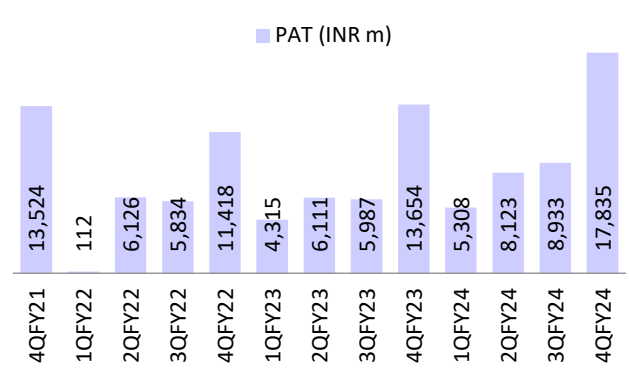


Exhibit 5: EBITDA margin also remained above guidance



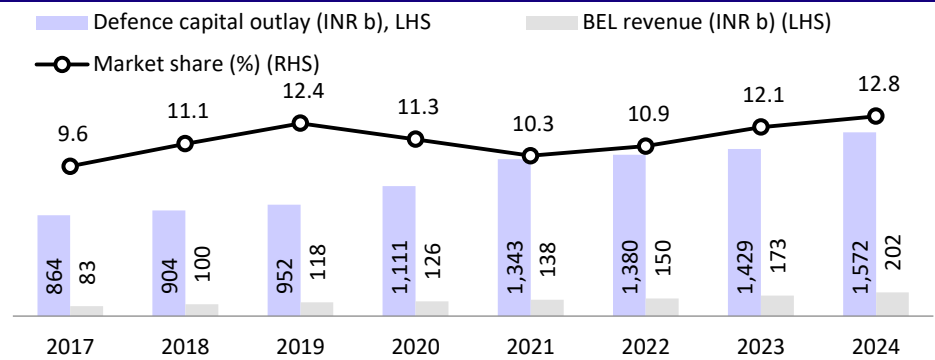
Source: MOFSL, Company

Exhibit 6: Healthy 31% YoY PAT growth



Source: MOFSL, Company

Exhibit 7: BHE's market share has inched up in the past few years



Source: Company, MOFSL

Exhibit 8: Key R&D initiatives taken by the company during last year 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 Defence Guns, Artillery Guns and Upgrades for Indian Defence and export market
Armoured Vehicles Nigam Ltd (AVNL), Chennai	❖ Joint development and production of Armoured Fighting Vehicles (AFV) and variants and upgrades for Indian Defence 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 programmes 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

Source: Company, MOFSL

Revisions in estimates

We raise our earnings estimates by 21%/32% to factor in the following assumptions:

- **BHE's improving market share:** Its revenue market share crossed 12% vs. our initial estimate of 10.6%. This was driven by a wide presence across various import embargo lists declared by MoD. We, thus, factor in a higher revenue market share of over 12% in our estimates.
- **Better-than-expected gross margin:** FY24 gross margin stood at 47.6% as against our assumption of 45.3%. We incorporate similar gross margin into our estimates in future, despite an expected increase from large platform orders due to continuous R&D and initiatives taken by the company to control costs.
- **Improved OCF and FCF:** OCF and FCF improved significantly during FY24 on control over working capital, and we expect them to remain strong over FY24-26. Further, the company had a cash surplus of INR110b (as of FY24), providing scope for further capacity expansion. This also results in higher other income in our estimates.
- We, thus, expect a CAGR of 19%/20%/22% in sales/EBITDA/PAT over FY24-26.

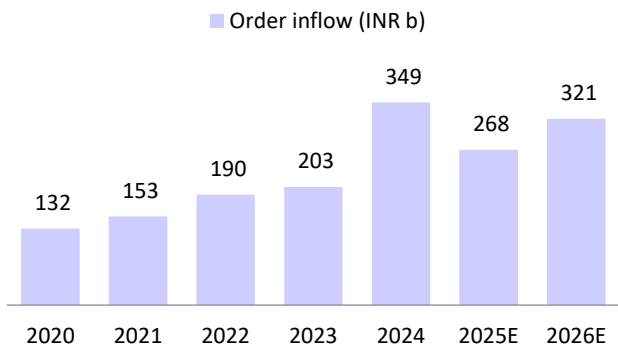
Exhibit 9: We revise our estimates upwards to bake in FY24 performance

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,36,484	2,39,247	(1.2)	2,85,055	2,71,561	5.0
EBITDA	59,383	54,569	8.8	71,580	61,939	15.6
EBITDA (%)	25.1	22.8	230 bps	25.1	22.8	230 bps
Adj. PAT	48,645	40,470	20.2	59,685	45,289	31.8
EPS (INR)	6.7	5.5	21.0	8.2	6.2	31.7

Source: MOFSL

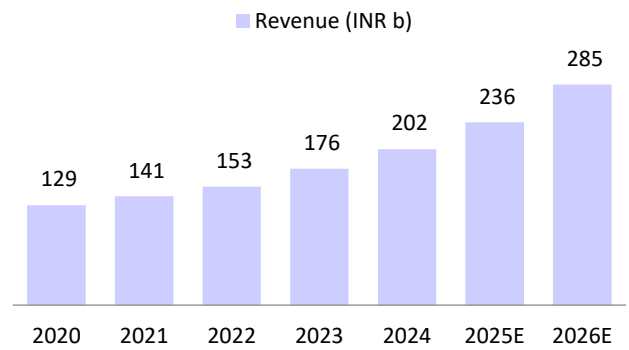
Financial outlook

Exhibit 10: We expect order inflows to decline in FY25 due to high base of FY24



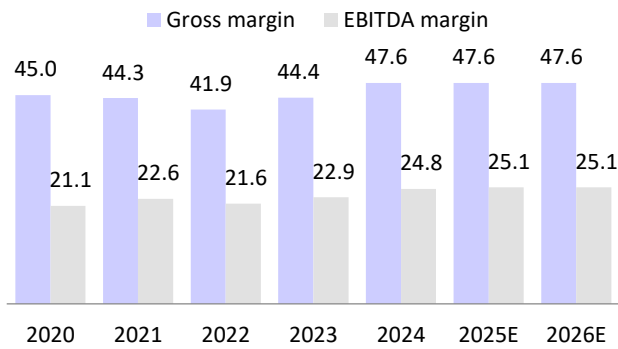
Source: MOFSL, Company

Exhibit 11: We expect a CAGR of 19% in revenue over FY24-26E



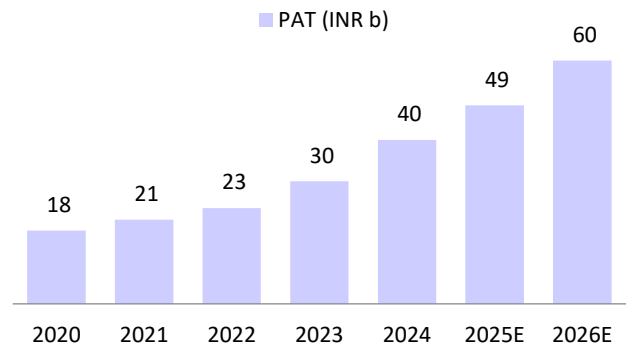
Source: MOFSL, Company

Exhibit 12: EBITDA margin to range around 25%



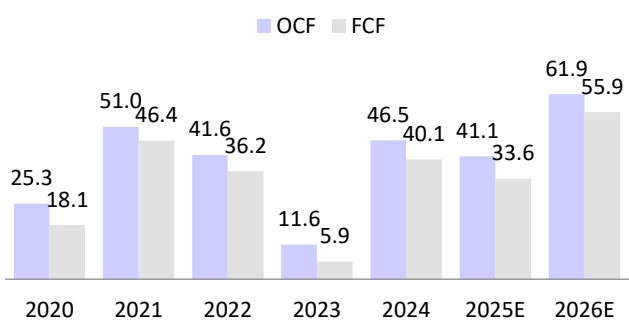
Source: MOFSL, Company

Exhibit 13: We expect a CAGR of 22% in PAT over FY24-26E



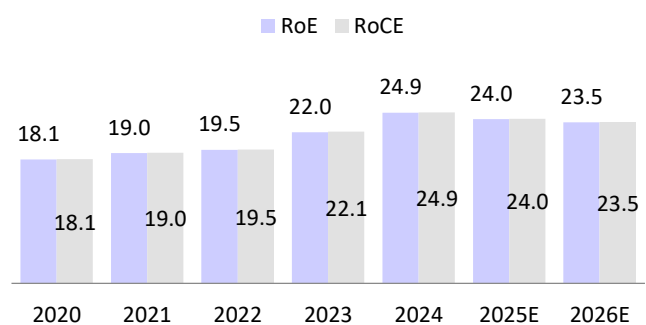
Source: MOFSL, Company

Exhibit 14: OCF & FCF to improve from FY25



Source: Company, MOFSL

Exhibit 15: 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)	35.2	30.6	26.9	63.0	47.1	38.9	31.7
Cash P/E	29.4	26.0	23.1	55.4	42.7	35.6	29.3
EV/EBITDA	22.5	18.3	16.8	44.8	35.7	29.6	23.9
EV/Sales	4.9	4.2	3.7	10.5	8.8	7.4	6.0
Price/Book Value	6.4	5.8	5.2	13.9	11.7	9.3	7.5
Dividend Yield (%)	1.2	1.3	1.6	0.7	0.3	0.4	0.5

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

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

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

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