

# Bharat Electronics

Estimate changes	↔
TP change	↔
Rating change	↔

**CMP: INR321 TP: INR360 (+12%) Buy**

## Better than expected performance

BHE's 1QFY25 results came ahead of estimates, driven by better-than-expected revenue and PAT. Revenue growth was led by a strong order book, which stood at INR767b. Order inflows stood at INR49.6b. The company has maintained its guidance on revenues and order inflows despite a strong execution in 1Q. We maintain our estimates and TP of INR360 on BHE with a BUY rating on the stock.

Bloomberg	BHE IN
Equity Shares (m)	7310
M.Cap.(INRb)/(USD\$b)	2349 / 28.1
52-Week Range (INR)	341 / 124
1, 6, 12 Rel. Per (%)	2/54/120
12M Avg Val (INR M)	6704

### Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Net Sales	236.5	285.1	336.0
EBITDA	59.4	71.6	84.4
PAT	48.6	59.7	72.2
EPS (INR)	6.7	8.2	9.9
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

### Valuations

P/E (X)	48.3	39.4	32.5
P/BV (X)	11.6	9.2	7.4
EV/EBITDA (X)	37.3	30.3	25.0
Div Yield (%)	0.3	0.4	0.4

### Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	51.1	51.1	51.1
DII	20.6	22.7	24.8
FII	17.4	17.6	17.4
Others	10.8	8.7	6.7

FII Includes depository receipts

### Results outperformed expectations

BHE's performance was ahead of our estimates during 1QFY25. Revenue grew 20% YoY to INR42b (est. INR37.8b), led by strong execution of the order book. Gross margin was up ~190bp YoY at 45.4%. EBITDA grew 41% YoY to INR9.4b, with margin at 22.3%, up ~240bp YoY. PAT grew 46% YoY to INR7.7b (4% beat). The order book stood at INR767b, up 17% YoY. Order inflows stood at INR49.6b, down YoY. Order inflows were diversified across BMP 2 upgrade, T/R module, MPR radar, Akash AMC, CMS system, spares for ships etc. The company has maintained its guidance of 15% growth in revenue and EBITDA margins in the range of 22-23% for FY25. It has also maintained its order inflow guidance of INR250b each for FY25/FY26, excluding the QRSAM project.

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

BHE targets order inflows of INR250b in FY25, which can include projects such as air defense fire control radar – Atulya, security and surveillance system for army, EWC radar, mountain radar, Ground Based Mobile ELINT System, Shivalik, combat weapon systems, etc. QRSAM trials are completed and it is expected to be finalized by 1QFY26, which would be an additional inflow of INR200-250b. BHE's scope of work in Sukhoi would include supply of radar, EW systems, radio and communication system and this would be an opportunity worth INR40-50b from the first batch of 84-100 number of Sukhoi upgrades. BHE is also eyeing orders from Kavach from Indian railways, Netra and Uttam radar.

### Supply chain issues have largely eased out

BHE's revenue growth was strong at 20% YoY in 1Q. Key projects contributing to revenue growth during the quarter included LRSAM (INR8.4b), civil sector project (INR3b), hammer missile system (INR2.4b), platform terminal (INR1.4b), IACCS (INR1.3b), EW system (INR1.3b), naval systems (INR950m), etc. Going ahead too, execution over the next two years would come from projects like Akash, LRSAM, Himshakti, Arudra radar, air defense control, etc.

**Financial outlook**

We keep our estimates unchanged and expect a CAGR of 19%/19%/22% in revenue/ EBITDA/PAT over FY24-27. We expect OCF/FCF to remain strong over FY24-27, given its control over working capital. Further, the company has a cash surplus of INR39b (as of FY24), 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**

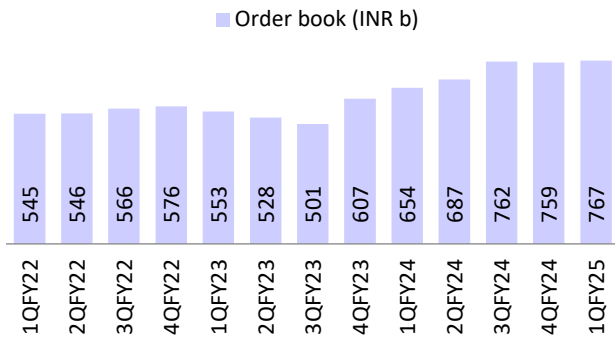
BHE is currently trading at 39.4x/32.5x on FY26E/FY27E EPS. We maintain our two-year forward TP of INR360 and maintain BUY rating on BHE.

**Quarterly Earning Model**

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	Var. (%)	
<b>Net Sales</b>	<b>35,108</b>	<b>39,933</b>	<b>41,367</b>	<b>85,285</b>	<b>41,988</b>	<b>47,297</b>	<b>49,662</b>	<b>97,538</b>	<b>2,01,694</b>	<b>2,36,484</b>	<b>37,838</b>	<b>11</b>
Change (%)	12.8	1.2	0.1	32.1	19.6	18.4	20.1	14.4	14.3	17.2	7.8	
<b>EBITDA</b>	<b>6,644</b>	<b>10,044</b>	<b>10,494</b>	<b>22,800</b>	<b>9,367</b>	<b>11,020</b>	<b>12,960</b>	<b>26,036</b>	<b>49,982</b>	<b>59,383</b>	<b>8,703</b>	<b>8</b>
Change (%)	29.4	17.4	23.0	24.9	41.0	9.7	23.5	14.2	23.5	18.8	31.0	
As of % Sales	18.9	25.2	25.4	26.7	22.3	23.3	26.1	26.7	24.8	25.1	23.0	
Depreciation	1,013	1,004	998	1,109	997	1,084	1,110	1,361	4,124	4,552	1,059	(6)
Interest	11	15	5	39	12	18	18	23	70	70	18	(33)
Other Income	1,417	1,705	2,232	2,205	2,015	2,331	2,388	3,057	7,558	9,792	2,277	(12)
<b>PBT</b>	<b>7,038</b>	<b>10,729</b>	<b>11,723</b>	<b>23,856</b>	<b>10,373</b>	<b>12,250</b>	<b>14,220</b>	<b>27,708</b>	<b>53,346</b>	<b>64,552</b>	<b>9,903</b>	<b>5</b>
Tax	1,729	2,606	2,790	6,021	2,612	3,019	3,504	6,828	13,146	15,907	2,440	
Effective Tax Rate (%)	24.6	24.3	23.8	25.2	25.2	24.6	24.6	24.6	24.6	24.6	24.6	
<b>Reported PAT</b>	<b>5,308</b>	<b>8,123</b>	<b>8,933</b>	<b>17,835</b>	<b>7,761</b>	<b>9,231</b>	<b>10,716</b>	<b>20,880</b>	<b>40,200</b>	<b>48,645</b>	<b>7,463</b>	<b>4</b>
Change (%)	23.0	32.9	49.2	30.6	46.2	13.6	20.0	17.1	33.7	21.0	40.6	
<b>Adj PAT</b>	<b>5,308</b>	<b>8,123</b>	<b>8,933</b>	<b>17,835</b>	<b>7,761</b>	<b>9,231</b>	<b>10,716</b>	<b>20,880</b>	<b>40,200</b>	<b>48,645</b>	<b>7,463</b>	<b>4</b>
Change (%)	<b>23.0</b>	<b>32.9</b>	<b>49.2</b>	<b>30.6</b>	<b>46.2</b>	<b>13.6</b>	<b>20.0</b>	<b>17.1</b>	<b>33.7</b>	<b>21.0</b>	<b>40.6</b>	

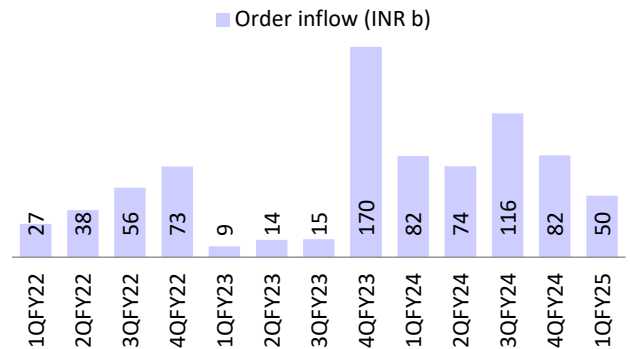
Key Exhibits

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



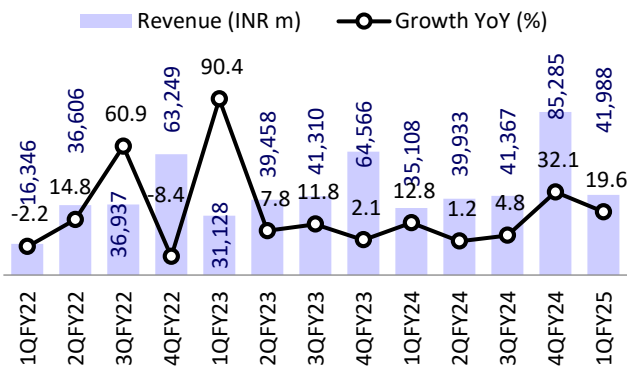
Source: MOFSL, Company

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



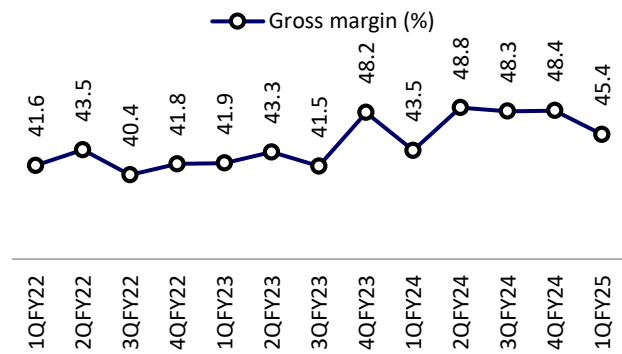
Source: MOFSL, Company

Exhibit 3: Revenue grew by 20% YoY (INR m)



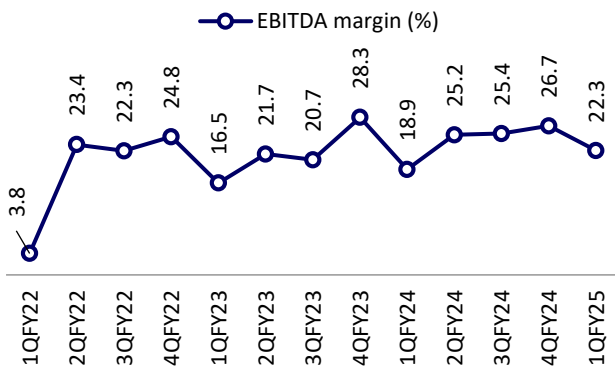
Source: MOFSL, Company

Exhibit 4: Gross margin declined QoQ (%)



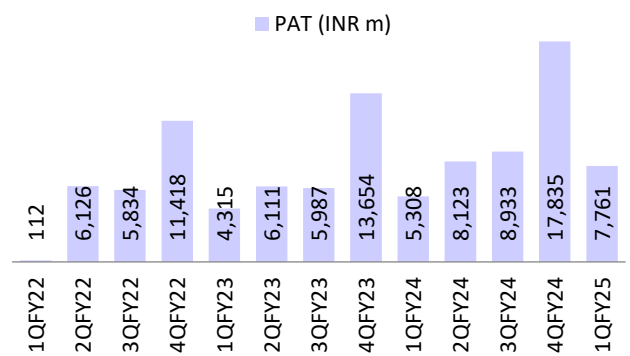
Source: MOFSL, Company

Exhibit 5: EBITDA margin remained in line with guidance



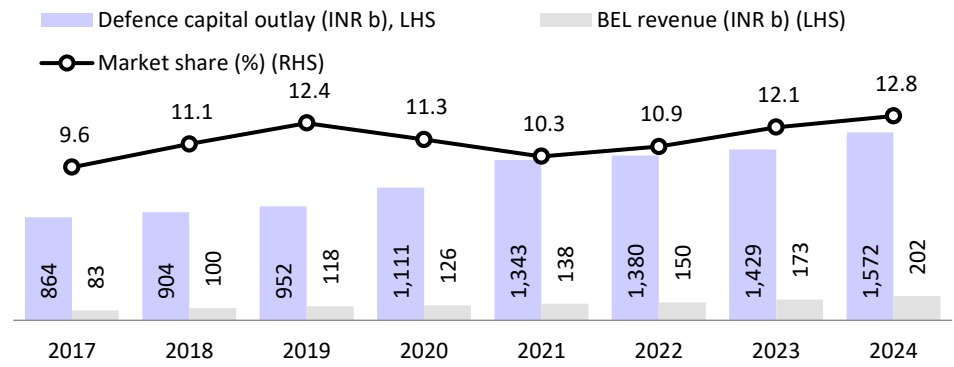
Source: MOFSL, Company

Exhibit 6: Healthy 46% YoY PAT growth



Source: MOFSL, Company

**Exhibit 7: BHE’s revenue market share has inched up in the past few years**



Source: Company, MOFSL

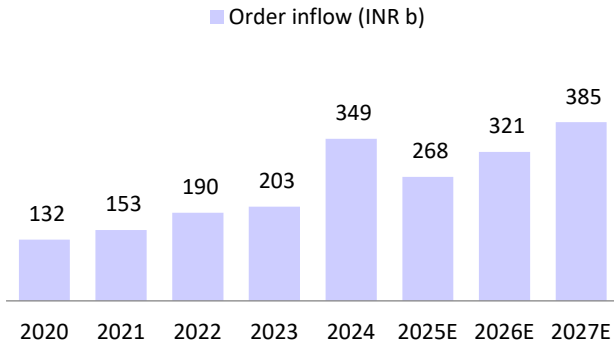
**Exhibit 8: Key R&D initiatives taken by the company during last year, which will start yielding results over time**

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 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

Source: Company, MOFSL

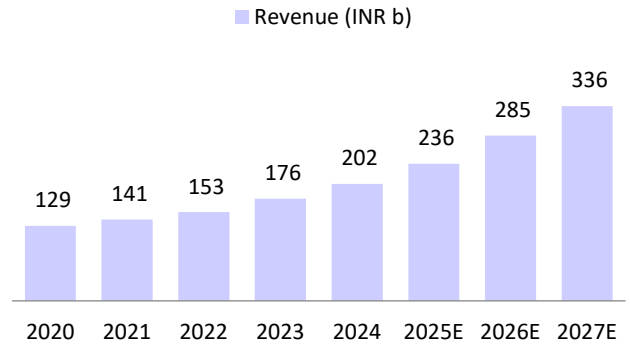
**Financial outlook**

**Exhibit 9: We expect order inflows to decline in FY25 due to high base of FY24**



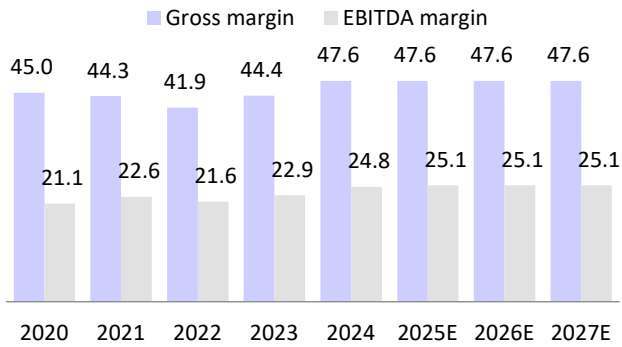
Source: MOFSL, Company

**Exhibit 10: We expect a CAGR of 19% in revenue over FY24-27E**



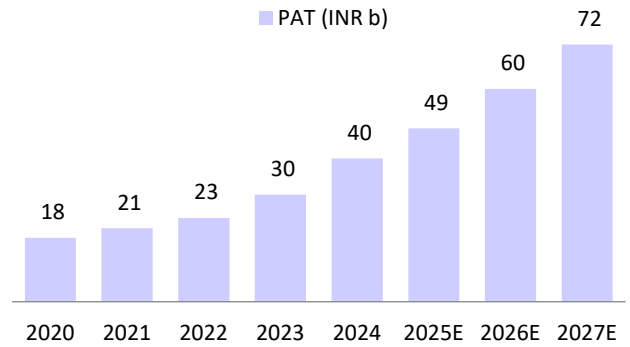
Source: MOFSL, Company

**Exhibit 11: We expect EBITDA margin to range around 25%**



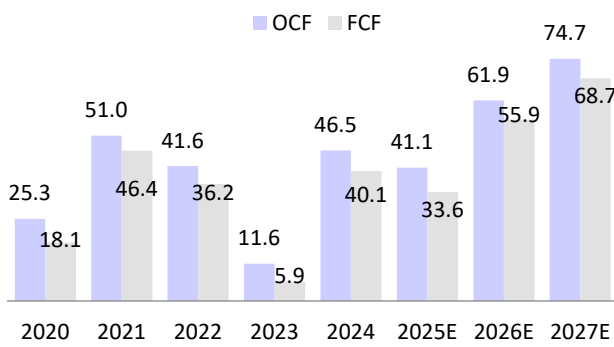
Source: MOFSL, Company

**Exhibit 12: We expect 22% PAT CAGR over FY24-27E**



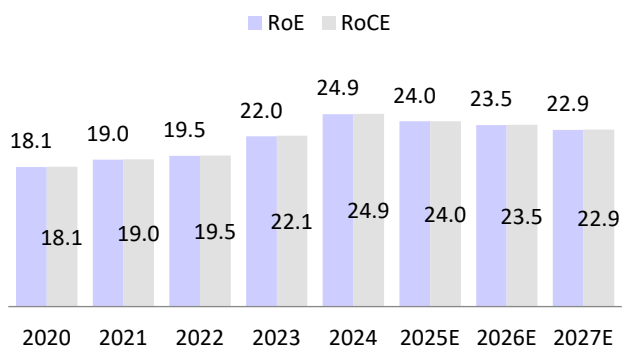
Source: MOFSL, Company

**Exhibit 13: OCF & FCF started improving from FY24**



Source: Company, MOFSL

**Exhibit 14: RoE and RoCE to remain above 23%**



Source: Company, MOFSL

## Financials and valuation

Income Statement							(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E	2027E
<b>Net Sales</b>	<b>1,40,638</b>	<b>1,53,138</b>	<b>1,76,462</b>	<b>2,01,694</b>	<b>2,36,484</b>	<b>2,85,055</b>	<b>3,36,024</b>
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
<b>Gross Profit</b>	<b>62,360</b>	<b>64,113</b>	<b>78,374</b>	<b>96,035</b>	<b>1,12,600</b>	<b>1,35,726</b>	<b>1,59,995</b>
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
<b>EBITDA</b>	<b>31,811</b>	<b>33,092</b>	<b>40,475</b>	<b>49,982</b>	<b>59,383</b>	<b>71,580</b>	<b>84,379</b>
% 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
<b>PBT</b>	<b>29,348</b>	<b>31,578</b>	<b>39,849</b>	<b>53,346</b>	<b>64,552</b>	<b>79,203</b>	<b>95,770</b>
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
<b>Adjusted PAT</b>	<b>20,654</b>	<b>23,489</b>	<b>30,067</b>	<b>40,200</b>	<b>48,645</b>	<b>59,686</b>	<b>72,170</b>
<b>Reported PAT</b>	<b>20,654</b>	<b>23,489</b>	<b>30,067</b>	<b>40,200</b>	<b>48,645</b>	<b>59,686</b>	<b>72,170</b>
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
<b>Net Worth</b>	<b>1,08,768</b>	<b>1,20,492</b>	<b>1,36,455</b>	<b>1,61,426</b>	<b>2,02,995</b>	<b>2,53,998</b>	<b>3,15,669</b>
Loans	-	-	-	-	-	-	-
Deferred Tax Liability	(4,634)	(6,207)	(5,034)	(5,742)	(5,742)	(5,742)	(5,742)
<b>Capital Employed</b>	<b>1,04,134</b>	<b>1,14,285</b>	<b>1,31,422</b>	<b>1,55,684</b>	<b>1,97,253</b>	<b>2,48,256</b>	<b>3,09,928</b>
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
<b>Net Fixed Assets</b>	<b>28,655</b>	<b>29,840</b>	<b>31,518</b>	<b>31,962</b>	<b>34,909</b>	<b>35,878</b>	<b>36,421</b>
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
<b>Curr. Assets</b>	<b>2,40,423</b>	<b>2,78,924</b>	<b>3,03,732</b>	<b>3,41,637</b>	<b>4,20,589</b>	<b>5,26,172</b>	<b>6,45,593</b>
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
<b>Current Liab. &amp; Prov.</b>	<b>1,81,764</b>	<b>2,14,008</b>	<b>2,14,089</b>	<b>2,30,131</b>	<b>2,70,461</b>	<b>3,26,010</b>	<b>3,84,302</b>
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
<b>Net Current Assets</b>	<b>58,659</b>	<b>64,916</b>	<b>89,643</b>	<b>1,11,506</b>	<b>1,50,127</b>	<b>2,00,162</b>	<b>2,61,290</b>
<b>Application of Funds</b>	<b>1,04,134</b>	<b>1,14,285</b>	<b>1,31,422</b>	<b>1,55,684</b>	<b>1,97,253</b>	<b>2,48,256</b>	<b>3,09,928</b>

## Financials and valuation

<b>Ratios</b>							
<b>Y/E March</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>Adjusted EPS</b>	<b>8.5</b>	<b>9.6</b>	<b>4.1</b>	<b>5.5</b>	<b>6.7</b>	<b>8.2</b>	<b>9.9</b>
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
<b>Valuation (x)</b>							
P/E (standalone)	37.9	33.3	78.1	58.4	48.3	39.4	32.5
Cash P/E	32.2	28.7	68.8	53.0	44.2	36.3	30.3
EV/EBITDA	23.0	21.4	56.1	44.8	37.3	30.3	25.0
EV/Sales	5.3	4.7	13.1	11.1	9.4	7.6	6.3
Price/Book Value	7.2	6.5	17.2	14.6	11.6	9.2	7.4
Dividend Yield (%)	1.1	1.3	0.5	0.2	0.3	0.4	0.4
<b>Profitability Ratios (%)</b>							
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
<b>Turnover Ratios</b>							
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

<b>Y/E March</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>PBT before Extraordinary Items</b>	<b>29,348</b>	<b>31,578</b>	<b>39,849</b>	<b>53,346</b>	<b>64,552</b>	<b>79,203</b>	<b>95,770</b>
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)
<b>CF from Operations</b>	<b>51,035</b>	<b>41,612</b>	<b>11,552</b>	<b>46,480</b>	<b>41,125</b>	<b>61,918</b>	<b>74,686</b>
<b>CF from Operations after EOI</b>	<b>51,035</b>	<b>41,612</b>	<b>11,552</b>	<b>46,480</b>	<b>41,125</b>	<b>61,918</b>	<b>74,686</b>
(Inc)/Dec in FA	(4,664)	(5,461)	(5,621)	(6,423)	(7,500)	(6,000)	(6,000)
<b>Free Cash Flow</b>	<b>46,371</b>	<b>36,151</b>	<b>5,931</b>	<b>40,057</b>	<b>33,625</b>	<b>55,918</b>	<b>68,686</b>
(Pur)/Sale of Investments	(1,094)	(43,145)	33,442	(52,465)	-	-	-
<b>CF from Investments</b>	<b>(5,758)</b>	<b>(48,606)</b>	<b>27,820</b>	<b>(58,888)</b>	<b>(7,500)</b>	<b>(6,000)</b>	<b>(6,000)</b>
(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
<b>CF from Fin. Activity</b>	<b>(10,757)</b>	<b>(10,772)</b>	<b>(13,121)</b>	<b>(14,743)</b>	<b>(7,147)</b>	<b>(8,753)</b>	<b>(10,569)</b>
<b>Inc/Dec of Cash</b>	<b>34,519</b>	<b>(17,766)</b>	<b>26,251</b>	<b>(27,152)</b>	<b>26,478</b>	<b>47,166</b>	<b>58,118</b>
Add: Beginning Balance and other adjustments	15,562	92,757	53,838	1,36,833	1,09,681	1,36,159	1,83,325
<b>Closing Balance</b>	<b>50,082</b>	<b>74,991</b>	<b>80,090</b>	<b>1,09,681</b>	<b>1,36,159</b>	<b>1,83,325</b>	<b>2,41,443</b>

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NOTES



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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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