

Steady growth continues...

About the stock: Bharat Electronics (BEL) is a leading aerospace and defence electronics company. It primarily manufactures advanced electronics products

- Multi-product, multi-technology - diverse product range including radar, missile systems, electronic warfare & avionics, anti-submarine warfare, electro-optics, homeland security, civilian products, etc
- Company's order backlog stands at ₹ 74595 crore as of Sept-2024 end

Investment Rationale:

- Sturdy longer-term outlook with progressively favourable defence industry scenario:** We believe that the defence electronics market in India is experiencing significant growth, driven by efforts to boost domestic production and reduce dependence on imports. As per the industry reports, defence electronics contribution increased to 30-35% in most platforms and expected to increase further in the coming years, led by increasing required modernisation in platforms. With having strong capabilities in designing, developing & manufacturing a wide range of strategic electronic products/systems, we believe that BEL is strongly positioned to capture this huge opportunity considering MoD's push for greater indigenous content in large scale programs like aircrafts, warships, submarines, missiles, combat vehicles, unmanned ariel vehicles etc. Furthermore, non-defence areas (like space, railways, metros, civil aviation etc) and exports present sizable opportunity for BEL in the coming years
- Healthy order-book position provides healthy revenue visibility; Orders pipeline remains robust:** BEL's order backlog stands at ₹ 74595 crore as of Sep-24 (3.6x TTM revenues), which provides healthy revenue growth visibility over the next 2-3 years considering the steady execution. Moreover, orders pipeline remains robust for BEL in defence electronic systems (including electronic warfare, radars, communication & control systems, navigation systems, avionics etc for various platforms), non-defence and exports. Management is confident of achieving its guidance of ~₹ 25000 crore of order intake in FY25E (~₹ 7500 crore worth of orders received in H1FY25). Orders inflow during FY26E is likely to be even much higher than ~annual run-rate of ₹ 25000-35000 crore, with the expectation of large scale order of QRSAM (₹ 25000+ crore) getting placed with the company. In terms of revenue growth, management's guidance of 15% YoY growth has been maintained, showing well-planned execution

Rating and Target Price

- Healthy order-backlog, improving execution and robust pipeline provides strong visibility for future earnings growth. We expect revenue & PAT CAGR at ~16% & ~17% respectively over FY24-27E. Balance sheet remains strong with healthy returns ratios
- We maintain BUY on BEL with a target price of ₹ 345 per share (based on 40x FY27E EPS)



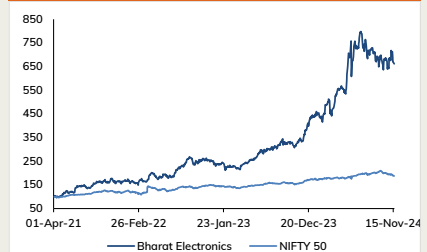
Particulars

Particulars (Rs Crore)	Amount
Market Capitalization	2,06,867
Total Debt (FY24)	0.0
Cash and Inv (FY24)	11,075
EV (FY24)	1,95,791
52 week H/L	340 / 137
Equity capital	731.0
Face value (Rs)	1.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	51.1	51.1	51.1	51.1
FII	17.8	17.6	17.4	17.3
DII	23.4	22.6	20.6	20.2
Others	7.7	8.7	10.8	11.4

Price Chart



Key risks

- Dependent on govt contracts
- High working capital requirement
- Availability of key raw materials/components

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Key Financial Summary

(Year-End March)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Revenues	14,064	15,368	17,734	20,268	13.0	23,308	27,271	31,634	16.0
EBITDA	3,181	3,341	4,086	5,046	16.6	5,711	6,681	7,909	16.2
EBITDA margin (%)	22.6	21.7	23.0	24.9		24.5	24.5	25.0	
Net Profit	2,065	2,400	2,986	3,985	24.5	4,551	5,315	6,304	16.5
EPS (Rs)	2.8	3.3	4.1	5.5		6.2	7.3	8.6	
P/E (x)	100.2	86.2	69.3	51.9		45.5	38.9	32.8	
EV/EBITDA (x)	63.4	59.7	48.6	38.8		34.1	28.8	23.9	
RoCE (%)	26.6	25.8	28.4	32.3		31.8	31.8	32.3	
RoE (%)	18.7	19.5	21.5	24.4		24.0	24.0	24.4	

Q2FY25 Result Summary

- Operational performance during the quarter remains healthy on YoY basis, led by well-planned execution. Revenue increased by 14.9% YoY (+8.5% QoQ) to Rs 4604.9 crore
- EBITDA margin also improved substantially by 510 bps YoY (+806 bps QoQ) to 30.4%, led by execution of high-margin contracts during the quarter
- Subsequently, absolute EBITDA grew by 38% YoY (+47.6% QoQ) to Rs 1400.0 crore
- PAT was up 38.4% YoY (+38.1% QoQ) to Rs 1092.8 crore
- For H1FY25, revenue is up 17% YoY to Rs 8848.5 crore while EBITDA is up 39% YoY to Rs 2348.2 crore as EBITDA margin is expanded by 417 bps YoY to 26.5%

Earnings call highlights

- Order backlog stands at ₹ 74595 crore as of Sept 2024 end (vs ₹ 76705 crore as of June 2024 end). Order inflows during Q2FY25 were at ~Rs 2500 crore taking inflows to ~Rs 7500 crore for H1FY25
- The order book now comprises of major orders such as LR-SAM (₹ 4200 crore), IACCs (Integrated Air Command & Control System) ₹ 2000 crore, Akash prime (₹ 3500), LC Avionics (₹ 1600 crore), D-29 Electronic Warfare Suite (₹ 1300 crore), Akash ADC & CLRS (₹ 1500 crore), MSWS (Multi Sensor warning System) ₹ 1000 crore
- Defence contributes ~87% of the order backlog while non-defence and exports segments contribute ~10% and ~3% to the backlog respectively
- Company has given a revenue growth guidance of ~15% YoY for FY25E with gross margin at ~42% and EBITDA margin of 23-25%
- Capex guidance for FY25E stands at ₹ 800 crore
- Major orders executed during H1FY25 are: Long Range Surface to Air Missile - LRSAM (₹ 840 crore), Central Board of Indirect Taxes and Customs (CBIC) Infra systems (₹ 300 crore), Hammer missile system (₹ 235 crore), SATCOM terminals (₹ 143 crore), Electronic Warfare (EW) systems for Shakti (₹ 127 crore), India's Integrated Air Command & Control System - IACCS (₹ 300 crore), Manpack band terminal (₹ 200 crore)
- Major orders expected to be executed in H2FY25 are: LRSAM execution of (₹ 1600 crore), EW system of Himshakti - execution of (₹ 850 crore), EW range execution of (₹ 750 crore), Akash (Army) - execution of (₹ 500 crore), equipment for D-29 EW system - of (₹ 500 crore), and Weapon Locating Radar (WLR) plane - execution of (₹ 450 crore).
- For FY25E, order inflows are expected to be ₹ 25000 crore. In FY26E, company expect large contract of Quick Reaction Surface-to-Air Missile – QRSAM (₹ 25000+ crore) to be placed
- Orders expected in FY25E: Ashwini radar (₹ 2500 crore), Electronic Warfare Suite for MI-17 (₹ 2000 crore), ATULYA Order (₹ 2000 crore), Shakti Phase IV (₹ 2000 crore) and other small orders.
- BEL has added five SBU's, one is in Hyderabad (EW Land Systems) and remaining four in Bangalore (Seeker/RF/IR SBU, arms & ammunition SBU, network & cybersecurity SBU, unmanned systems SBU)
- Hyderabad SBU is expected to contribute ~₹ 1500 crore revenue in FY25 while the other four Bangalore SBUs to contribute Rs 350-400 crore each. Management believes each of these four SBU's to generate over ₹ 1000 crore in the next 2-3 years

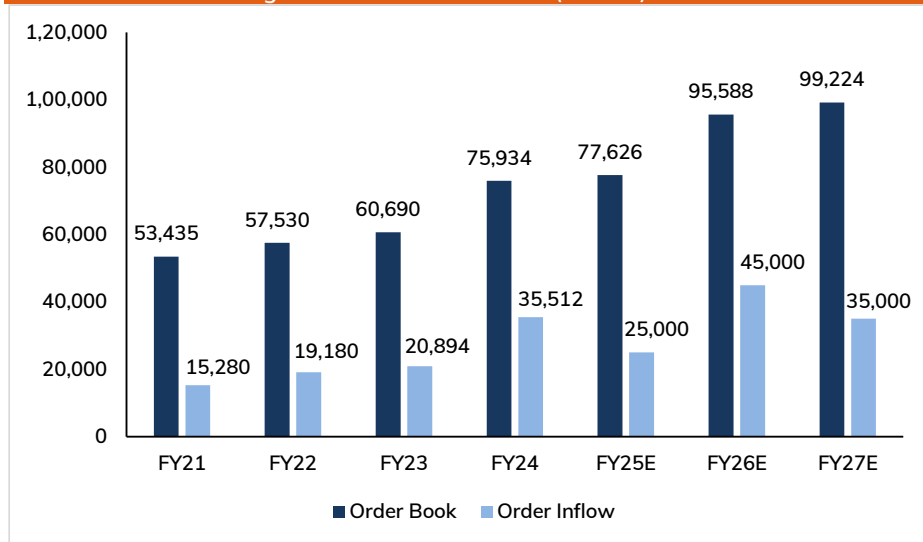
- Management is progressing with QRSAM programme and has made advancements in the past three months and is now seeking some clarification and expecting an RFP to be issued to them in the next quarter.
- Management is targeting a 5% increase in the near-term export share with the target of achieving 10% currently having major export orders at ₹ 4219 crore.
- Products by BEL have mix of ~85% indigenous component and the rest ~15% through Transfer of Technology (ToT).

Exhibit 1: Q1FY25 result snapshot (₹ crore)

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Operating Income	4,604.9	4,009.1	14.9	4,244	8.5	Healthy execution led to strong growth in revenues
Other income	157.8	137.1	15.1	204	-22.5	
Total Revenue	4,762.7	4,146.1	14.9	4,447.2	7.1	
Raw materials costs	2,141.9	2,043.7	4.8	2,315	-7.5	
Employees Expenses	656.0	598.5	9.6	667	-1.6	
Other Expenses	407.1	352.8	15.4	314	29.8	
Total Expenditure	3,205.0	2,994.9	7.0	3,295	-2.7	
EBITDA	1,400.0	1,014.2	38.0	948.2	47.6	
EBITDA margins (%)	30.4	25.3	510 bps	22.3	806 bps	Margins improvement was led by execution of higher margin contracts
Interest	1.3	1.5	-12.6	1.2	11.9	
Depreciation	111.2	108.3	2.7	107.7	3.3	
Tax	361.3	260.7	38.6	261.9	37.9	
PAT	1092.8	789.7	38.4	791.3	38.1	

Source: Company, ICICI Direct Research

Exhibit 2: Order backlog and order inflows trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Revenue	20,268	23,308	27,271	31,634
% Growth	14.3	15.0	17.0	16.0
Other income	670.1	804.2	924.8	1,063.5
Total Revenue	20,268	23,308	27,271	31,634
% Growth	14.3	15.0	17.0	16.0
Total Raw Material Costs	10,576	12,120	14,317	16,450
Employee Expenses	2,489	2,797	3,273	3,796
other expenses	2,156	2,680	3,000	3,480
Total Operating Expenditure	15,222	17,598	20,590	23,726
Operating Profit (EBITDA)	5,046	5,711	6,681	7,909
% Growth	23.5	13.2	17.0	18.4
Interest	7	5	5	5
PBDT	5,709	6,510	7,601	8,967
Depreciation	443	489	565	617
PBT before Exceptional Items	5,266	6,020	7,037	8,350
Total Tax	1,323	1,511	1,766	2,096
PAT before MI	3,943	4,509	5,270	6,254
PAT	3,985	4,551	5,315	6,304
% Growth	33.5	14.2	16.8	18.6
EPS	5.5	6.2	7.3	8.6

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Equity Capital	731.0	731.0	731.0	731.0
Reserve and Surplus	15,596	18,219	21,398	25,109
Total Shareholders funds	16,327	18,950	22,129	25,840
Other Non Current Liabilities	65.1	65.1	65.1	65.1
Total Debt	-	-	-	-
Total Liabilities	17,500	20,123	23,303	27,014
Gross Block	5,777	6,533	7,333	8,033
Acc: Depreciation	2,912	3,402	3,966	4,583
Net Block	2,788	3,132	3,367	3,450
Capital WIP	456	500	500	500
Total Fixed Assets	3,929	4,316	4,551	4,634
Non Current Assets	1,364	1,483	1,637	1,807
Inventory	7,447	8,557	10,012	11,614
Debtors	7,392	8,493	9,937	11,527
Loans and Advances	1	2	2	3
Other Current Assets	7,422	9,323	10,908	12,654
Cash	11,075	12,203	14,557	17,535
Total Current Assets	34,082	39,323	46,161	54,076
Current Liabilities	3,706	4,279	5,006	5,807
Provisions	967	967	967	967
Total Current Liabilities	22,027	25,150	29,198	33,656
Net Current Assets	12,055	14,173	16,963	20,420
Total Assets	17,500	20,123	23,303	27,013

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Profit after Tax	3,985	4,551	5,315	6,304
Depreciation	443	489	565	617
Interest	7	5	5	5
Cash Flow before WC changes	4,436	5,046	5,885	6,926
Changes in inventory	(999)	(1,110)	(1,455)	(1,602)
Changes in debtors	(359)	(1,101)	(1,444)	(1,590)
Changes in loans & Advances	0	(1)	(0)	(0)
Changes in other current assets	425	(1,902)	(1,585)	(1,745)
Net Increase in Current Assets	(1,070)	(4,113)	(4,484)	(4,938)
Changes in creditors	376	572	727	801
Changes in provisions	67	107	136	150
Net Inc in Current Liabilities	1,461	3,123	4,048	4,458
Net CF from Operating activities	4,826	4,055	5,450	6,446
Changes in deferred tax assets	(71)	-	-	-
(Purchase)/Sale of Fixed Assets	(633)	(800)	(800)	(700)
Net CF from Investing activities	(434)	(918)	(954)	(870)
Dividend and Dividend Tax	(1,608)	(1,827)	(2,120)	(2,558)
Net CF from Financing Activities	(1,449)	(2,009)	(2,141)	(2,598)
Net Cash flow	2,943	1,128	2,354	2,978
Opening Cash/Cash Equivalent	8,132	11,075	12,203	14,557
Closing Cash/ Cash Equivalent	11,075	12,203	14,557	17,535

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
EPS	5.5	6.2	7.3	8.6
Cash per Share	15.2	16.7	19.9	24.0
BV	22.3	25.9	30.3	35.3
Dividend per share	2.2	2.5	2.9	3.5
Dividend payout ratio	40%	40%	40%	41%
EBITDA Margin	24.9	24.5	24.5	25.0
PAT Margin	19.7	19.5	19.5	19.9
RoE	24.4	24.0	24.0	24.4
RoCE	32.3	31.8	31.8	32.3
RoC	87.7	77.4	80.8	87.8
EV / EBITDA	38.8	34.1	28.8	23.9
P/E	51.9	45.5	38.9	32.8
EV / Net Sales	9.7	8.4	7.1	6.0
Sales / Equity	1.2	1.2	1.2	1.2
Market Cap / Sales	10.2	8.9	7.6	6.5
Price to Book Value	12.7	10.9	9.3	8.0
Asset turnover	1.2	1.2	1.2	1.2
Debtors Turnover Ratio	2.8	2.9	3.0	2.9
Creditors Turnover Ratio	5.8	5.8	5.9	5.9
Debt / Equity	-	-	-	-
Current Ratio	3.9	4.1	4.2	4.3
Quick Ratio	2.6	2.8	2.9	2.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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