

July 30, 2024

Strong visibility on healthy backlog, robust pipeline...

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 ₹ 76705 crore as of June-2024 end

Q1FY25 Performance: Revenue increased by 20.1% YoY to ₹ 4243.6 crore in Q1FY25 as the execution remains strong. EBITDA margin also improved by 331 bps YoY to 22.3%, which led to EBITDA growth of 41% YoY to ₹ 948.2 crore. Other income was up 45.2% YoY to ₹ 203.6 crore. Thus, PAT increased by 46.9% YoY to ₹ 791.3 crore on account of healthy operational performance & higher other income. Sequentially, revenue declined by 50.4% with EBITDA margin down by 436 bps QoQ, as execution during Q1 generally remains poor on QoQ basis

Investment Rationale:

- Healthy order-book position with robust orders pipeline:** Current order backlog of ₹ 76705 crore (3.7x TTM revenues) already provides healthy revenue growth visibility considering the healthy execution rate across the projects. Order pipeline remains robust in defence electronics (which includes electronic warfare, radars, communication & control systems, navigation systems, avionics etc for various platforms like fighter jets, warships, missiles, unmanned Ariel vehicles), non-defence and exports. Company maintains its order inflow guidance of ₹ 25000 crore annually in FY25E & FY26E. Additionally, the large order of QRSAM (₹ 25000+ crore) is also expected to be placed in FY26E.
- Industry tailwinds remains strong:** BEL is strongly positioned to capture the huge opportunity in defence & space electronics systems/sub-systems industry. As per the industry reports, share of defence electronics (in total defence production) is expected to increase to ~35% in the coming years (vs. current share of ~25%). With govt's focus on increasing capital outlay for indigenised systems or increasing indigenisation level across platforms, BEL is expected to be the key beneficiary in this impending opportunity considering its strong capabilities in designing, developing & manufacturing a wide range of strategic electronic products/systems

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 ₹ 390 per share (based on 45x FY27E EPS)

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	27,504	31,905	16.3
EBITDA	3,181	3,341	4,086	5,046	16.6	5,711	6,738	7,976	16.5
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	4,542	5,355	6,351	16.8
EPS (Rs)	2.8	3.3	4.1	5.5		6.2	7.3	8.7	
P/E (x)	112.9	97.2	78.1	58.5		51.3	43.5	36.7	
EV/EBITDA (x)	71.7	67.5	55.1	44.0		38.7	32.4	27.0	
RoCE (%)	26.6	25.8	28.4	32.3		31.7	32.0	32.5	
RoE (%)	18.7	19.5	21.5	24.4		24.0	24.2	24.5	

Source: Company, ICICI Direct Research



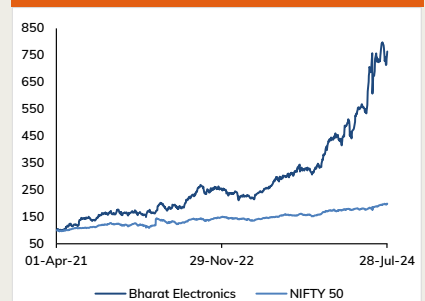
Particulars

Particulars (Rs Crore)	Amount
Market Capitalization	2,33,182
Total Debt (FY24)	0.0
Cash and Inv (FY24)	11,075
EV (FY24)	2,22,107
52 week H/L	340 / 124
Equity capital	731.0
Face value (Rs)	1.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	51.1	51.1	51.1	51.1
FII	17.2	17.8	17.6	17.4
DII	24.2	23.4	22.6	20.6
Others	7.5	7.7	8.7	10.8

Price Chart



Key risks

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

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Q1FY25 Result Summary

- Consolidated revenue increased by 20.1% YoY to ₹ 4243.6 crore in Q1FY25 as the execution of order backlog remains strong
- EBITDA margin also improved by 331 bps YoY to 22.3%, which led to EBITDA growth of 41% YoY to ₹ 948.2 crore
- Other income was up 45.2% YoY to ₹ 203.6 crore. Thus, PAT increased by 46.9% YoY to ₹ 791.3 crore on account of healthy operational performance & higher other income
- Sequentially, revenue declined by 50.4% with EBITDA margin down by 436 bps QoQ, as execution during Q1 generally remains poor on QoQ basis

Earnings call highlights

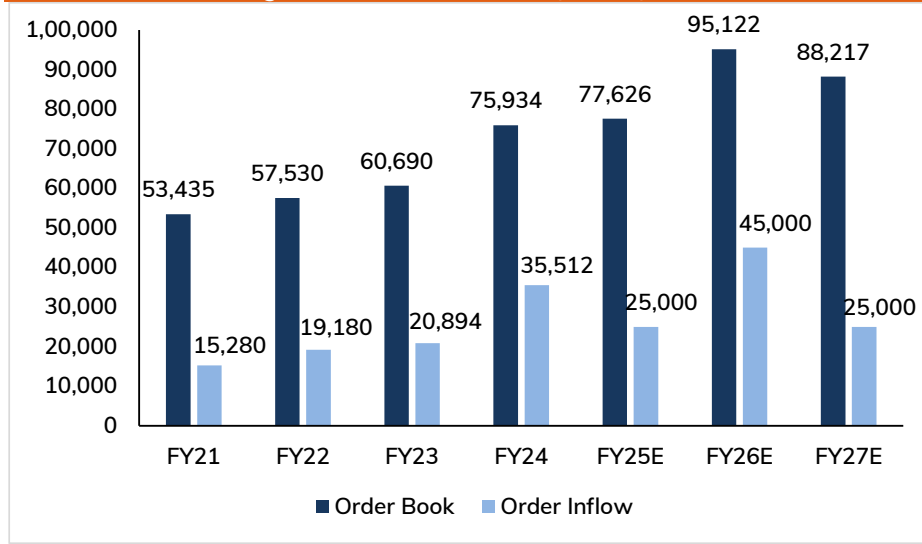
- Order backlog stands at ₹ 76705 crore as of June 2024 end (vs ₹ 75934 crore as of March 2024 end). Order inflows during Q1FY25 were at ~Rs 5000 crore
- Defence contributes ~86% of the order backlog while non-defence and exports segments contribute ~11% and ~3% to the backlog respectively
- Other expenses increased by 30% YoY in Q1FY25 on account of higher liquidated damage provisions (₹ 132 crore in Q1FY25 vs ₹ 54 crore in Q1FY24)
- Major orders executed during the quarter 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)
- Major orders received in Q1FY25: BMP tank upgrade, TR modules for Thales, MPR Radar for ITR Chandipur, communication system spares for P-15B ships, Akash missile systems AMC, T-90 stabilizers and CMS system
- Company has maintained revenue growth guidance of ~15% YoY for FY25E with EBITDA margin at 23-25%
- For FY25E, order inflows are expected to be ₹ 25000 crore. For FY26E, company expect inflows at ~₹ 50000 crore (including ₹ 25000+ crore contract for Quick Reaction Surface-to-Air Missile – QRSAM which is expected to be placed by Apr-June 2025)
- Orders expected in FY25E: ADFCR (Air Defence Fire Control Radar) – Atulya, EW Suite for P-17B, Security & Surveillance system for Army, Mountain radar, EW ground based systems and other radars for ships. Order value is expected to be ₹ 1000-2500 for each order
- Orders expected in FY26E: QRSAM (Quick Reaction Surface to Air Missile), MRSAM (Medium-range surface-to-air missile), electronic combat systems for Shivalik & Talwar frigates, systems for P-75 submarines, systems for Next generation corvettes, Sukhoi upgrade systems etc
- Management sees healthy revenue growth over the next few years, led by execution of current backlog and expectation of strong order inflows
- Company plans capex of ~₹ 800 crore annually for next 2-3 years for expansion of capacities for existing & new products development and modernisation of existing facilities. There are five new facilities under process of development
- In non-defence segment, Kavach system is expected to be big opportunity for BEL considering its requirement for Indian railways. BEL is developing these systems and expected to be completed in next 18-24 months

Exhibit 1: Q1FY25 result snapshot (₹ crore)

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Operating Income	4,243.6	3,532.9	20.1	8,564	-50.4	Healthy execution led to strong growth in revenues
Other income	203.6	140.2	45.2	225	-9.7	
Total Revenue	4,447.2	3,673.2	21.1	8,789.5	-49.4	
Raw materials costs	2,315.1	1,990.2	16.3	4,411	-47.5	
Employees Expenses	666.6	628.7	6.0	637	4.6	
Other Expenses	313.7	241.5	29.9	1,229	-74.5	
Total Expenditure	3,295.4	2,860.4	15.2	6,277	-47.5	
EBITDA	948.2	672.5	41.0	2,287.2	-58.5	
EBITDA margins (%)	22.3	19.0	331 bps	26.7	-436 bps	Margins improved; remains in-line with expectations
Interest	1.2	1.1	10.3	4.1	-70.9	
Depreciation	107.7	108.9	-1.2	118.5	-9.2	
Tax	261.9	174.1	50.4	604.4	-56.7	
PAT	791.3	538.6	46.9	1796.7	-56.0	

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	FY23	FY24	FY25E	FY26E	FY27E
Revenue	17,734	20,268	23,308	27,504	31,905
% Growth	15.4	14.3	15.0	18.0	16.0
Other income	280.8	670.1	804.2	924.8	1,063.5
Total Revenue	17,734	20,268	23,308	27,504	31,905
% Growth	15.4	14.3	15.0	18.0	16.0
Total Raw Material Costs	9,828	10,576	12,120	14,440	16,590
Employee Expenses	2,317	2,489	2,797	3,300	3,829
other expenses	1,504	2,156	2,680	3,025	3,510
Total Operating Expenditure	13,649	15,222	17,598	20,766	23,928
Operating Profit (EBITDA)	4,086	5,046	5,711	6,738	7,976
% Growth	22.3	23.5	13.2	18.0	18.4
Interest	15	7	5	5	5
PBDT	4,352	5,709	6,510	7,658	9,035
Depreciation	429	443	501	569	622
PBT before Exceptional Items	3,923	5,266	6,009	7,089	8,413
Total Tax	983	1,323	1,508	1,779	2,112
PAT before MI	2,940	3,943	4,500	5,310	6,301
PAT	2,986	3,985	4,542	5,355	6,351
% Growth	24.4	33.5	14.0	17.9	18.6
EPS	4.1	5.5	6.2	7.3	8.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E	FY27E
Profit after Tax	2,986	3,985	4,542	5,355	6,351
Depreciation	429	443	501	569	622
Interest	15	7	5	5	5
Cash Flow before WC changes	3,430	4,436	5,049	5,929	6,978
Changes in inventory	(856)	(999)	(1,110)	(1,540)	(1,616)
Changes in debtors	(925)	(359)	(1,101)	(1,529)	(1,604)
Changes in loans & Advances	(0)	0	(1)	(0)	(0)
Changes in other current assets	(65)	425	(1,902)	(1,678)	(1,760)
Net Increase in Current Assets	(2,206)	(1,070)	(4,113)	(4,747)	(4,980)
Changes in creditors	(39)	376	572	770	808
Changes in provisions	204	67	107	144	151
Net Inc in Current Liabilities	985	1,461	3,123	4,286	4,496
Net CF from Operating activities	2,209	4,826	4,058	5,468	6,494
Changes in deferred tax assets	117	(71)	-	-	-
(Purchase)/Sale of Fixed Assets	(529)	(633)	(800)	(800)	(700)
Net CF from Investing activities	(162)	(434)	(918)	(963)	(871)
Dividend and Dividend Tax	(1,316)	(1,608)	(1,827)	(2,120)	(2,558)
Net CF from Financing Activities	(1,478)	(1,449)	(2,009)	(2,141)	(2,598)
Net Cash flow	568	2,943	1,130	2,363	3,025
Opening Cash/Cash Equivalent	7,564	8,132	11,075	12,206	14,569
Closing Cash/ Cash Equivalent	8,132	11,075	12,206	14,569	17,594

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E	FY27E
Equity Capital	731.0	731.0	731.0	731.0	731.0
Reserve and Surplus	13,131	15,596	18,210	21,429	25,186
Total Shareholders funds	13,862	16,327	18,941	22,160	25,917
Other Non Current Liabilities	64.5	65.1	65.1	65.1	65.1
Total Debt	-	-	-	-	-
Total Liabilities	14,925	17,500	20,114	23,333	27,091
Gross Block	5,163	5,777	6,533	7,333	8,033
Acc. Depreciation	2,469	2,912	3,413	3,982	4,605
Net Block	2,694	2,788	3,120	3,351	3,429
Capital WIP	361	456	500	500	500
Total Fixed Assets	3,818	3,929	4,304	4,535	4,613
Non Current Assets	1,404	1,364	1,483	1,646	1,818
Inventory	6,448	7,447	8,557	10,097	11,713
Debtors	7,033	7,392	8,493	10,022	11,626
Loans and Advances	2	1	2	2	3
Other Current Assets	7,846	7,422	9,323	11,002	12,762
Cash	8,132	11,075	12,206	14,569	17,594
Total Current Assets	30,068	34,082	39,326	46,436	54,441
Current Liabilities	3,330	3,706	4,279	5,049	5,856
Provisions	845	967	967	967	967
Total Current Liabilities	20,566	22,027	25,150	29,436	33,932
Net Current Assets	9,502	12,055	14,176	17,000	20,509
Total Assets	14,925	17,500	20,114	23,333	27,091

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
EPS	4.1	5.5	6.2	7.3	8.7
Cash per Share	11.1	15.2	16.7	19.9	24.1
BV	19.0	22.3	25.9	30.3	35.5
Dividend per share	1.8	2.2	2.5	2.9	3.5
Dividend payout ratio	44%	40%	40%	40%	40%
EBITDA Margin	23.0	24.9	24.5	24.5	25.0
PAT Margin	17.2	19.7	19.5	19.5	19.9
RoE	21.5	24.4	24.0	24.2	24.5
RoCE	28.4	32.3	31.7	32.0	32.5
RoC	63.8	87.7	77.3	81.3	88.4
EV / EBITDA	55.1	44.0	38.7	32.4	27.0
P/E	78.1	58.5	51.3	43.5	36.7
EV / Net Sales	12.7	11.0	9.5	7.9	6.8
Sales / Equity	1.3	1.2	1.2	1.2	1.2
Market Cap / Sales	13.1	11.5	10.0	8.5	7.3
Price to Book Value	16.8	14.3	12.3	10.5	9.0
Asset turnover	1.3	1.2	1.2	1.2	1.2
Debtors Turnover Ratio	2.7	2.8	2.9	3.0	2.9
Creditors Turnover Ratio	5.3	5.8	5.8	5.9	5.9
Debt / Equity	-	-	-	-	-
Current Ratio	4.0	3.9	4.1	4.2	4.4
Quick Ratio	2.8	2.6	2.8	2.9	2.9

Source: Company, ICICI Direct Research

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Sell: <-15%



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