

Well positioned for strong growth...

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 ₹ 75934 crore as of FY24 end

Q4FY24/FY24 Performance: Revenue increased by 32.6% YoY (+105.8% QoQ) to ₹ 8564.1 crore in Q4FY24. EBITDA margin stood at 26.7% (-156 bps YoY, +94 bps QoQ). Consequently, EBITDA grew by 25.3% YoY (+113.3% QoQ) to ₹ 2287.2 crore. PAT was up 31.6% YoY (+108.9% QoQ) to ₹ 1796.7 crore as other income was up sharply to ₹ 225.4 crore (vs Rs 67.8 crore in Q4FY23). For FY24, revenue is up 14.3% YoY with EBITDA margin at 24.9% (vs 23.0% in FY23). FY24 PAT stands at ₹ 3985 crore (+33.5% YoY)

Investment Rationale:

- Strong industry tailwinds:** BEL is favourably positioned to capture the larger pie of huge opportunity in Indian defence & space electronics systems/sub-systems or components industry which is expected to clock 13-14% CAGR over FY22-27 with the share of defence electronics (in total defence production) increasing to 30-35% in the coming years (vs. current share of ~25%). BEL is expected to be the key beneficiary in this impending opportunity in indigenisation of defence platforms considering its strong technical expertise and capabilities in designing, developing and manufacturing a wide range of strategic electronic products/systems
- Healthy order-book position with robust orders pipeline:** Company's order inflow stood at ~₹ 35000 crore during FY24 (as against inflows of ₹ 19000-20000 crore in FY22 & FY23), led by large orders received in defence electronics segment. Current order backlog of Rs 75934 crore (3.7x FY24 revenues), provides healthy revenue growth visibility. 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

Rating and Target Price

- Healthy order-backlog & robust pipeline provides strong revenue visibility. Moreover, increasing indigenisation across defence platforms, focus on cost-optimisation and increasing exports & services share would help in sustaining better margins in the coming periods. We expect revenue & PAT to grow at a CAGR of 15% & 15.5%, respectively over FY24-26E. Balance sheet remains strong with healthy returns ratios
- We recommend BUY on BEL with target price of ₹ 330 per share (based on 45x FY26E EPS)



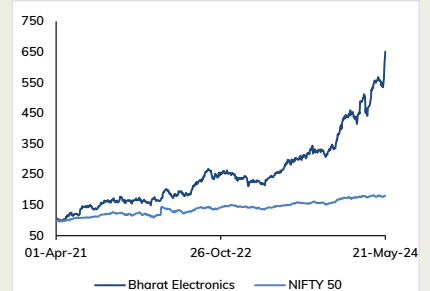
Particulars

Particulars (Rs Crore)	Amount
Market Capitalization	2,05,039
Total Debt (FY24)	0.0
Cash and Inv (FY24)	11,075
EV (FY24)	1,93,964
52 week H/L	284 / 107
Equity capital	731.0
Face value (Rs)	1.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	51.1	51.1	51.1	51.1
FII	17.4	17.2	17.8	17.6
DII	24.8	24.2	23.4	22.6
Others	6.7	7.5	7.7	8.7

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)	FY20	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Revenues	12,921	14,064	15,368	17,734	20,268	13.0	23,308	26,805	15.0
EBITDA	2,730	3,181	3,341	4,086	5,046	16.6	5,711	6,701	15.2
EBITDA margin (%)	21.1	22.6	21.7	23.0	24.9		24.5	25.0	
Net Profit	1,794	2,065	2,400	2,986	3,985	24.5	4,529	5,316	15.5
EPS (Rs)	2.5	2.8	3.3	4.1	5.5		6.2	7.3	
P/E (x)	114.3	99.3	85.4	68.7	51.4		45.3	38.6	
EV/EBITDA (x)	74.5	62.9	59.1	48.2	38.4		33.8	28.4	
RoCE (%)	24.6	26.6	25.8	28.4	32.3		31.6	31.9	
RoE (%)	17.8	18.7	19.5	21.5	24.4		23.9	24.1	

Q4FY24 & FY24 Result Summary

- Revenue increased by 32.6% YoY (+105.8% QoQ) to ₹ 8564.1 crore in Q4FY24. For FY24, revenue is up 14.3% YoY to Rs 20268.2; in-line with expectations and management's guidance
- Execution has improved sharply in Q4FY24 with ~33% YoY revenue growth as compared to ~5% YoY in 9MFY24
- EBITDA margin stood at 26.7% (-156 bps YoY, +94 bps QoQ) in Q4FY24. Consequently, EBITDA grew by 25.3% YoY (+113.3% QoQ) to ₹ 2287.2 crore. For FY24, EBITDA margin stands at 24.9% (vs 23.0% in FY23)
- PAT was up 31.6% YoY (+108.9% QoQ) to ₹ 1796.7 crore as other income was up sharply to ₹ 225.4 crore (vs ₹ 67.8 crore in Q4FY23). For FY24, PAT stands at ₹ 3985 crore (+33.5% YoY)

Earnings call highlights – Q4FY24 & FY24

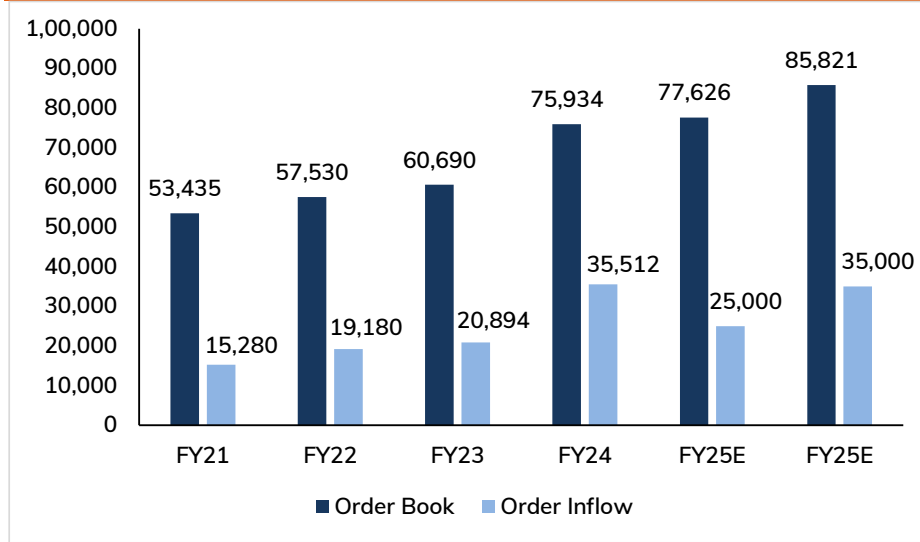
- Order backlog stands at ₹ 75934 crore as of March 2024 end (vs ₹ 60690 crore in FY23 end). Order inflows during FY24 were at ~Rs 35000 crore
- Exports revenue stood at ~\$93 mn in FY24 (vs \$48.3 mn in FY23). Exports order inflows stood at \$211 mn during the year while order backlog stands at \$ 407 mn
- There has been significant improvement in execution in Q4FY24 (as compared to Q2FY24 & Q3FY24) led by improvement in supply chain
- Margins have improved led by operational efficiencies, better project management and increasing indigenisation
- 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 ₹ 45000-50000 crore (including ₹ 30000 crore contract for Quick Reaction Surface-to-Air Missile – QRSAM)
- Other large scale projects in pipeline are Akash missile systems (~₹ 3500 crore), Long-range surface-to-air missile – LRSAM (~₹ 5600 crore), MPR Arudhra (~₹ 2400 crore), Himshakti Radar (~₹ 2500 crore), ADC – Air Defence Control & Reporting system (~₹ 1960 crore)
- Management sees double digit revenue growth over the next few years, led by execution of current backlog and expectation of strong order inflows
- Company expect exports order inflows at ~\$200 mn in FY25E with exports revenue at ~\$ 110 mn for the year
- Non-defence revenue share stood at ~15% in FY24. Company expect the similar share of non-defence in FY25E. Share of services stood at ~10% while products contributes ~90% to total sales
- Company plans capex of ₹ 600-800 crore annually for the 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
- Company highlight that BEL's contribution in any large defence platform has been increasing led by modernisation of platforms. The contribution is increasing gradually to 30-35% from 25%
- R&D spend stood at ₹ 1100 crore in FY24 (~6% of sales). Company expects R&D spend of ₹ 1300-1500 crore in FY25 (targets 7-8% of sales in coming years)

Exhibit 1: Q4FY24 result snapshot (₹ crore)

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Operating Income	8,564.1	6,456.6	32.6	4,162	105.8	Revenue came in-line with estimates
Other income	225.4	67.8	232.5	167	34.6	
Total Revenue	8,789.5	6,524.4	34.7	4,329.6	103.0	
Raw materials costs	4,410.9	3,346.4	31.8	2,132	106.9	
Employees Expenses	637.4	558.4	14.1	625	2.0	
Other Expenses	1,228.6	727.0	69.0	333	268.8	
Total Expenditure	6,276.9	4,631.8	35.5	3,090	103.2	
EBITDA	2,287.2	1,824.8	25.3	1,072.5	113.3	
EBITDA margins (%)	26.7	28.3	-156 bps	25.8	94 bps	Margins came better than estimates
Interest	4.1	2.3		0.5		
Depreciation	118.5	108.8	9.0	107.5	10.3	
Tax	604.4	416.1	45.2	283.8	112.9	
PAT	1796.7	1365.4	31.6	860.3	108.9	

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
Net Sales	17,404	20,268	23,308	26,805
Other operating income	330	385	-	-
Revenue	17,734	20,268	23,308	26,805
% Growth	15.4	14.3	15.0	15.0
Other income	280.8	670.1	770.7	886.3
Total Revenue	17,734	20,268	23,308	26,805
% Growth	15.4	14.3	15.0	15.0
Total Raw Material Costs	9,828	10,576	12,120	13,938
Employee Expenses	2,317	2,489	2,797	3,217
other expenses	1,504	2,156	2,680	2,949
Total Operating Expenditure	13,649	15,222	17,598	20,104
Operating Profit (EBITDA)	4,086	5,046	5,711	6,701
% Growth	22.3	23.5	13.2	17.3
Interest	15	7	7	7
PBDT	4,352	5,709	6,474	7,580
Depreciation	429	443	494	549
PBT before Exceptional Items	3,923	5,266	5,980	7,031
Total Tax	983	1,323	1,501	1,765
PAT before MI	2,940	3,943	4,479	5,266
PAT	2,986	3,985	4,529	5,316
% Growth	24.4	33.5	13.6	17.4
EPS	4.1	5.5	6.2	7.3

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E
Profit after Tax	2,986	3,985	4,529	5,316
Depreciation	429	443	494	549
Interest	15	7	7	7
Cash Flow before WC changes	3,430	4,436	5,030	5,873
Changes in inventory	(856)	(999)	(1,110)	(1,284)
Changes in debtors	(925)	(359)	(1,101)	(1,274)
Changes in loans & Advances	(0)	0	(1)	(0)
Changes in other current assets	(65)	425	(1,902)	(1,399)
Net Increase in Current Assets	(2,206)	(1,070)	(4,113)	(3,956)
Changes in creditors	(39)	376	572	642
Changes in provisions	204	67	107	120
Net Inc in Current Liabilities	985	1,461	3,123	3,572
Net CF from Operating activities	2,209	4,826	4,040	5,489
Changes in deferred tax assets	117	(71)	-	-
(Purchase)/Sale of Fixed Assets	(529)	(633)	(700)	(700)
Net CF from Investing activities	(162)	(434)	(818)	(836)
Dividend and Dividend Tax	(1,316)	(1,608)	(1,827)	(2,193)
Net CF from Financing Activities	(1,478)	(1,449)	(2,011)	(2,216)
Net Cash flow	568	2,943	1,210	2,436
Opening Cash/Cash Equivalent	7,564	8,132	11,075	12,286
Closing Cash/ Cash Equivalent	8,132	11,075	12,286	14,722

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E
Equity Capital	731.0	731.0	731.0	731.0
Reserve and Surplus	13,131	15,596	18,197	21,304
Total Shareholders funds	13,862	16,327	18,928	22,035
Other Non Current Liabilities	64.5	65.1	65.1	65.1
Total Debt	-	-	-	-
Total Liabilities	14,925	17,500	20,101	23,208
Gross Block	5,163	5,777	6,433	7,133
Acc. Depreciation	2,469	2,912	3,406	3,956
Net Block	2,694	2,788	3,027	3,178
Capital WIP	361	456	500	500
Total Fixed Assets	3,818	3,929	4,211	4,362
Non Current Assets	1,404	1,364	1,483	1,619
Inventory	6,448	7,447	8,557	9,841
Debtors	7,033	7,392	8,493	9,767
Loans and Advances	2	1	2	2
Other Current Assets	7,846	7,422	9,323	10,722
Cash	8,132	11,075	12,286	14,722
Total Current Assets	30,068	34,082	39,405	45,798
Current Liabilities	3,330	3,706	4,279	4,920
Provisions	845	967	967	967
Total Current Liabilities	20,566	22,027	25,150	28,722
Net Current Assets	9,502	12,055	14,256	17,076
Total Assets	14,925	17,500	20,101	23,208

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
EPS	4.1	5.5	6.2	7.3
Cash per Share	11.1	15.2	16.8	20.1
BV	19.0	22.3	25.9	30.1
Dividend per share	1.8	2.2	2.5	3.0
Dividend payout ratio	44%	40%	40%	41%
EBITDA Margin	23.0	24.9	24.5	25.0
PAT Margin	17.2	19.7	19.4	19.8
RoE	21.5	24.4	23.9	24.1
RoCE	28.4	32.3	31.6	31.9
RoIC	63.8	87.7	78.5	84.1
EV / EBITDA	48.2	38.4	33.8	28.4
P/E	68.7	51.4	45.3	38.6
EV / Net Sales	11.1	9.6	8.3	7.1
Sales / Equity	1.3	1.2	1.2	1.2
Market Cap / Sales	11.6	10.1	8.8	7.6
Price to Book Value	14.8	12.6	10.8	9.3
Asset turnover	1.3	1.2	1.2	1.2
Debtors Turnover Ratio	2.7	2.8	2.9	2.9
Creditors Turnover Ratio	5.3	5.8	5.8	5.8
Debt / Equity	-	-	-	-
Current Ratio	4.0	3.9	4.1	4.2
Quick Ratio	2.8	2.6	2.8	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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