

Stock Update

Bharat Electronics Ltd.

Jan 01, 2024





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Aerospace & Defence	Rs. 184.20	Buy in the Rs 182-186 band & add more on dips to Rs. 165-169 band	Rs. 202	Rs. 218	3-4 quarters

HDFC Scrip Code	BHAELE
BSE Code	500049
NSE Code	BEL
Bloomberg	BHE IN
CMP Dec 29, 2023	184.2
Equity Capital (Rs cr)	731.0
Face Value (Rs)	1.0
Equity Share O/S (cr)	731.0
Market Cap (Rs cr)	134,646.1
Book Value (Rs)	20.3
Avg. 52 Wk Volumes	7,598,855
52 Week High	185.2
52 Week Low	87.0

Share holding Pattern % (Sept, 2023)	
Promoters	51.1
Institutions	41.4
Non Institutions	7.5
Total	100.0



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

Bharat Electronics Ltd. (BEL) is a defence public sector undertaking engaged in the business of Defence Electronics empowering the Nation's Defence Forces and engaged in other chosen areas of Professional Electronics. BEL is the largest domestic electronics manufacturer enjoying benefits associated with the economies of scale. BEL is the dominant supplier of radar, communication and electronic warfare equipment to the Indian armed forces. Besides, the government ownership leads to a sizeable inflow of orders on a nominated basis, providing a steady earnings stream to the company.

The company's unexecuted order book stood at Rs 68,728 crore as of Sept 30, 2023, which grew 50% YoY. The order book stands at 3.8 times of the operating income on TTM basis, which provides adequate revenue visibility over the medium term. Order inflow stood at Rs 26,613 crore for FY24 so far vs. order inflows in FY23 of Rs 20,690 crore. The company's strong order book has surpassed its FY24 order inflow guidance of Rs 20,000 crore. Big-ticket orders for QRSAM, MRSAM and naval platforms due in FY25 could provide a multi-year revenue growth opportunity in the medium term.

BEL has been conservative on giving profitability guidance over the past. It has guided for gross margin at 40 -42% and EBITDA margin in the range of 21-23% for FY24E. BEL has been focused on cost-control measures and extensive indigenization efforts to improve profitability that could lead to the company achieving its margin guidance as well. We expect gross margin at 43.6%/44% and expect EBITDA margin at 23.2%/23.7% for FY25E/FY26E, respectively.

The company is diversifying into various non-defence areas and energy storage products for EV with Li-ion & Fuel Cells and charging stations is one area the company is focusing on. BEL's defence business contributed to ~87% and non-defence business contributed to ~11% of its annual sales in FY23. Contribution from the non-defence sector varied between 11-20% and the company aims to generate 25% of its revenue from the non-defence sector with applications in energy storage, smart city platforms and electric vehicle charging stations in FY24E/FY25E.

We had issued stock update report ([Link](#)) on Sept 04, 2023 on Bharat Electronics Ltd and recommended to buy the stock in the Rs 136-140 band and add more on dips to Rs. 121-125 band for the base target of Rs. 151 and bull case target of Rs. 163 over the next two to three quarters. The stock has achieved its targets before expiry of the call. Given the healthy growth outlook and expectation of strong order intake, we have now revised earnings, introduced FY26 estimates and increased target price for the stock.



Valuation & Recommendation:

BEL, one of India's largest defence PSUs, specialising in manufacturing defence electronics is emerging as a key beneficiary of increase in defence capital expenditure. BEL has advantage over its competitors due to its dominant market position, proven track record and association with the armed forces, established infrastructure and manufacturing facilities, along with strong R&D capabilities. Government ownership leads to a sizeable inflow of orders on a nomination basis and large defence offset requirements of foreign suppliers provide opportunities for business growth over the medium term.

BEL's established track record, large manufacturing capacities, strong R&D base, robust order book with healthy order prospects and strong financial profile led by zero debt, attractive return ratios and better profitability makes us positive towards the stock. **We feel investors can buy the stock in the Rs 182-186 band and add more on dips to Rs. 165-169 band (26x Dec'25E EPS) for the base target of Rs. 202 (31.5x Dec'25E EPS) and bull case target of Rs. 218 (34x Dec'25E EPS) over the next three to four quarters. The stock is currently trading at 28.7x Dec'25E EPS.**

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q2FY24	Q2FY23	YoY-%	Q1FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	4009	3962	1.2	3533	13.5	15,368	17,734	20,641	23,667	26,950
EBITDA	1014	868	16.8	673	50.8	3,341	4,086	4,665	5,495	6,374
Depreciation	108	109	-1.1	109	-0.6	401	429	432	438	444
Other Income	137	74	85.7	140	-2.3	232	281	402	414	472
Interest Cost	2	2	-13.7	1	41.1	5	15	6	7	7
Tax	261	216	20.7	174	49.7	812	983	1,157	1,366	1,576
RPAT	781	615	27.0	529	47.7	2,354	2,940	3,472	4,098	4,817
APAT	789	624	26.6	538	46.6	2,399	2,984	3,518	4,147	4,868
Diluted EPS (Rs)	1.1	0.9	26.6	0.7	46.6	3.3	4.1	4.8	5.7	6.7
RoE-%						20.6	22.8	23.7	24.3	24.7
P/E (x)						56.1	45.1	38.3	32.5	27.7
EV/EBITDA (x)						39.3	31.5	27.3	23.0	19.6

(Source: Company, HDFC sec)

Q2FY24 Result Review

- BEL's revenue was inline with estimates and profitability was above expectations in Q2FY24. With robust order book, the company could report strong revenue growth going forward.
- Its consolidated revenue grew by 1.2% YoY to Rs 4009 crore in Q2FY24. The company's EBITDA increased by 16.8% on YoY basis to Rs 1014 crore.



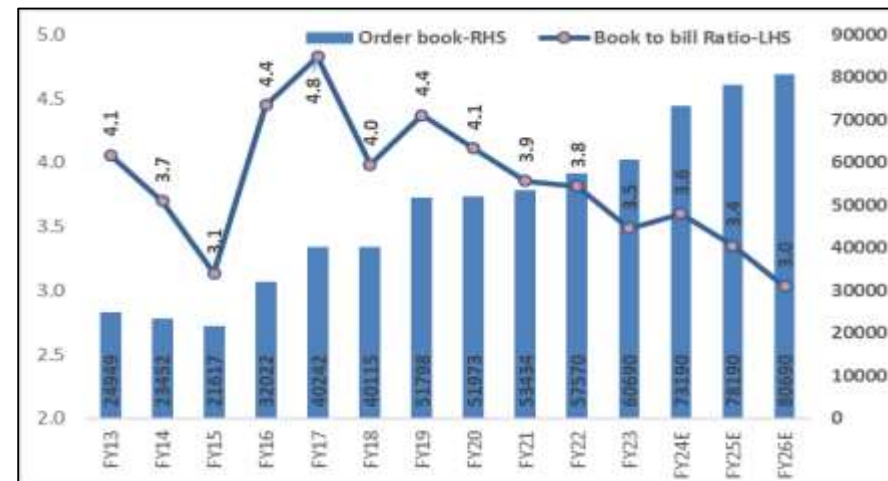
- EBITDA margin was at 25.3% in Q2FY24 vs. 21.9% in Q2FY23. EBITDA margin was supported by lower raw material cost on YoY basis. The company's net profit increased by 26.6% on YoY basis to Rs 789.4 crore and net profit margin stood at 19.7% in Q2FY24 vs. 15.7% in Q2FY23.
- The order book position of the company as on 1st October, 2023 stood at Rs 68,728 crore vs. Rs 65,356 crore as on 1st July 2023; book to bill stood at 3.8x TTM sales.

Key Updates

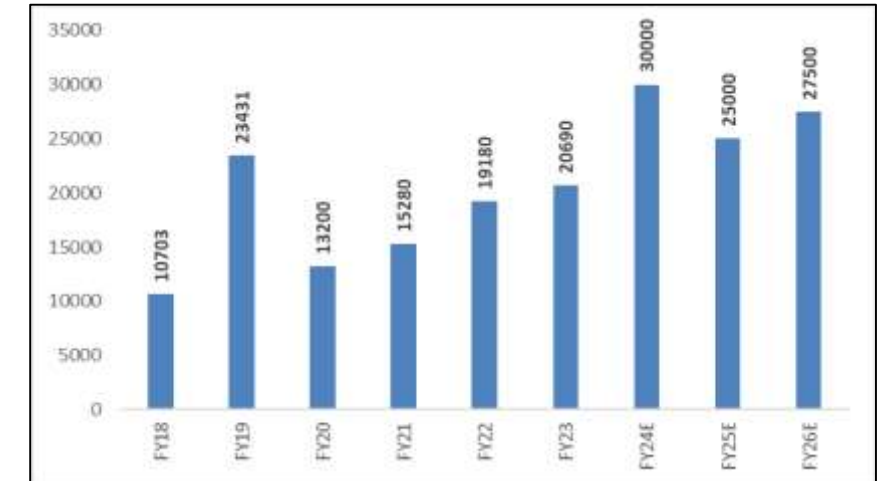
Strong order book brings better earning visibility going forward

The company's unexecuted order book stood at Rs 68,728 crore as of Sept 30, 2023, grew 50% YoY. The order book stands at 3.8 times of the operating income on TTM basis, which provides adequate revenue visibility over the medium term. Order inflow stood at Rs 26,613 crore for FY24 so far vs. order inflows in FY23 of Rs 20,690 crore. The company's strong order inflows in FY24 has surpassed BEL's FY24 order inflow guidance of Rs 20,000 crore for FY24E. We expect order inflow at Rs 30,000 crore in FY24E. The company is targeting an order intake of Rs 23-24,000 crores to achieve 8-10% growth in FY25E.

Order book (Rs in Cr) and Book to Bill ratio(x)



Order inflow (Rs in Cr)



(Source: Company, HDFC sec)



BEL Orders (YTD)

Orders	Value, Rs-Cr
Supply- 14 types of sensors for use on (NGOPV)	2,673
Electronic equipment (Miscellaneous)	86.2
Supply- Fuses for various calibres	4,522
Electronic equipment (Miscellaneous)	356
AMC, AEW&C, SDRs, Night vision binoculars etc.	3,915
SDRs - 44 units	280
Supply - sensors, weapon equipment, fire control systems, and communication equipment	2,119
Upgradation- Air Force Network, SATCOM upgrade of Akash missile	886
Supply - CMS, communication systems, EW systems and other sensors	1,075
Supply-radars, jammers, encryptors, SONARs, AMC and spares	3,290
Long Range Guidance Kit with Warhead, Airborne V/UHF Jammer, & other sub systems.	2,191
2 Regiments of Improved Akash Weapon System (AWS) with upgrades	3,914

(Source: Company, HDFC sec)

Orders received in Q3FY24

- On Dec 26, 2023, the company bagged orders worth Rs 678 crore. Out of the total, Rs 445 crore belonged to a contract with the Uttar Pradesh government for the next-generation UP Dial 112 project. Under the contract, the company will provide hardware, AI-based software tools and cyber security solutions for the project, spread across the state. The company also received additional orders worth Rs 233 crore for communication display units, thermal imaging cameras and miscellaneous spares and services.
- On Dec 22, 2023, the received orders worth Rs 2,673 crore collectively from Goa Shipyard Ltd (Rs 1,701 crore) and GRSE (Rs 972 crore). The orders entail the supply of 14 types of sensors for use on Next Generation Offshore Patrol Vessels (NGOPV).
- On Dec 15, 2023, BEL has also received additional orders worth Rs 86.15 crore since the last disclosure on Dec 15, 2023 and the orders pertain to miscellaneous spares and services. Besides, The Ministry of Defence has signed a landmark contract with BEL, Pune for procurement of electronic fuzes for the Indian Army for a period of 10 years, at a total cost of Rs 5,336.25 crore. Electronic Fuzes are an integral component of medium- to heavy-caliber artillery guns, which provide sustained artillery firepower for military operations.
- The company has received additional orders worth Rs 356 crore since the last disclosure on Dec 06, 2023, pertaining to other products like EW (Electronic Warfare) Testers, Medical Systems (Exports), Consumables and Batteries for Electronic Voting Machines (EVMs), Night Vision Devices Spares and Services.
- BEL received an order of Rs 580 crore from Indian Army for AMC of Radars. This project will have participation of Indian electronics and associated industries, including MSMEs, which are sub-vendors of BEL. BEL received additional orders worth Rs 3,335 crore since the last disclosure on Sept 15, 2023 and the said orders pertain to AMC for AEW&C system (Airborne Early Warning & Control), Uncooled TI sights, Software Defined Radios, SWIR pay load, AMC for IACCS, Passive Night Vision Binoculars, etc.



All these are flagship projects showcasing the indigenous design and manufacturing capabilities of Indian defence industry led by BEL, involving other public sector, private sector and MSMEs. These orders are for an average duration of 3.5-4 years; we expect execution to stay robust through to FY26E. These projects will add another milestone to generate revenue going forward. BEL's major expected orders in near to medium terms are QRSAM (Quick Reaction Surface-to-Air Missile) worth Rs 20,000 crore and MRSAM (Medium Range Surface to Air Missile) worth Rs 15,000-20,000 crore, that could also provide a strong its order inflows visibility.

Diversification into allied non-defence areas and increasing its focus on exports

The company is diversifying into various non-defence areas and energy storage products are one area the company is focusing on. BEL's defence business contributed to ~87% and non-defence business contributed to ~11% of its annual sales in FY23. The company has been continuously exploring diversification into allied non-defence areas, such as energy storage products for electric vehicles with Li-ion & Fuel Cells and charging stations. Besides, the company is currently exploring civil and medical equipment opportunities globally. Contribution from the non-defence sector varied between 11-20% and the company aims to generate 25% of its revenue from the non-defence sector with applications in energy storage, smart city platforms and electric vehicle charging stations in FY24E/FY25E.

Given high-growth opportunities in Medical Electronics and Solutions, BEL has a dedicated vertical for this segment. BEL plans to expand the network of marketing offices to further gain traction in the export business with a focus on Southeast Asia, Europe, Middle East, Africa, and North and South America either through direct engagement with customers or in collaboration with other Indian companies or local partners. The company has developed partnerships with design agencies, academia, start-ups, and global OEMs for developing technologies to meet emerging customer requirements, develop differentiated products, and expand its addressable market. The company expects to achieve a target of \$90 mn in exports, of which the company has already sold more than \$27 mn worth of products in H1FY24.

Robust financial profile led by healthy profitability supported by cost control measures and return ratio

- BEL's financial profile remains strong because of healthy profitability and return indicators, zero debt, superior liquidity and strong debt coverage metrics. BEL reported revenue CAGR over a decade (from FY13 to FY23) at ~11%, net profit CAGR of ~13% over the same period and the company reported margin at a range of 19-23%. We expect, the company could report revenue CAGR at ~15% and ~18% PAT CAGR over the FY23 to FY26E.
- BEL has focused on cost-control measures and extensive indigenisation efforts to improve profitability. BEL has met its entire working capital requirement through internal accruals over the last 5 years. The company has also sufficient liquidity with healthy cash and bank balance of about Rs 8,226 crore as on Sept 30, 2023.
- Besides, the company continues to invest heavily on capex at Rs. 700-800 crore for the year and has considerable expenditure on R&D at 6-7% of revenue.



- BEL is debt free company and liquidity profile is superior, supported by comfortable cash flow from operations, which are expected to be adequate to meet the capital expenditure outlay and dividend outflows, we expect Rs 2.1 and Rs 2.4 dividend per share to shareholders in FY24E and FY25E, respectively.
- Working capital position is expected to remain stable in the second half of the year.
- BEL reported double digit returns ratios, supported by healthy and sustainable margins.

What could go wrong?

- Any changes in the procurement policy of the defence forces or a significant reduction in defence spending could impact its revenue and order book position. Besides, any adverse change in government policy/terms for Defense PSUs could impact BEL's operation over the longer term. BEL's major customer- India Defence Sector, contributed ~ 87% of the revenue in FY23.
- Due to the high concentration of the Government sector orders, BEL's revenue generation and cash flows are vulnerable to delays in project execution or final payment clearance in some cases. BEL is targeting to increase the share of non-defence revenues to 25% over the medium term to reduce business dependence.
- Defence sector has been opened up to the private sector leading to threat of competition from private players like Adani Defence and Aerospace, L&T, Bharat Forge etc. However, BEL will continue to benefit from its strategic importance as the major supplier of defence electronics equipment to the Indian defence forces and the high sectoral entry barriers, which would limit competition.
- BEL's working capital intensity had remained elevated in the past due to high receivables and unbilled revenues on account of long gestation periods for the orders executed.
- Shortage of Lithium and semi-conductor Chips could impact its projects for EV Battery production and providing battery charging point facilities.
- Due to diversification efforts, geo political and external environment, BEL is exposed to a variety of risks which are dynamic in nature.

About the company

Bharat Electronics Ltd (BEL), a Navratna defence public sector undertaking, is engaged in the business of Defence Electronics empowering the Nation's Defence Forces and in other chosen areas of Professional Electronics. BEL is the dominant supplier of radar, communication and electronic warfare equipment to the Indian armed forces. The company has nine manufacturing units across India and two research units. The Bangalore and the Ghaziabad units are BEL's two major units, with the former contributing the largest share to the company's total revenue and profits. The GOI remains BEL's largest shareholder with the current shareholding of 51.14%, as on Sept 30, 2023.



Segments

Defence	Non Defence
Defence Communication products	Cyber Security
Land-based Radars	E-Mobility
Naval Systems	Railways
Electronic Warfare Systems	e-Governance Systems
Avionics	Homeland Security
Electro Optics	Civilian Radars
Tank & Armoured Fighting Vehicle Electronic Systems	Turnkey Projects
Weapon Systems	Components / Devices
C4I Systems	Telecom, Broadcast System
Shelters & Masts	Software Services
Simulators	Electronic Manufacturing Services
Batteries	Exports
Components / Devices	

Peer comparison

Company, Rs Ct	Mkt Cap-Cr	Sales			EBITDA			PAT			EBITDAM-%			PATM-%		
		FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
BEL	134646	20641	23667	26950	4665	5495	6374	3518	4147	4868	22.6	23.2	23.7	17.0	17.5	18.1
HAL	187525	29196	32633	36946	7230	7998	9115	5474	6013	6852	24.8	24.5	24.7	18.8	18.4	18.5
BDL	31378	3202	4250	5376	630	886	1184	619	766	996	19.7	20.8	22.0	19.3	18.0	18.5

Company	RoE-%			P/E-x		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
BEL	23.7	24.3	24.7	38.3	32.5	27.7
HAL	21.5	21.4	22.3	34.0	30.5	26.7
BDL	18.0	19.6	22.0	50.7	41.0	31.5

(HAL figures are from Bloomberg Estimates)

(Source: Company, HDFC sec)



Financials – Consolidated Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	15368	17734	20641	23667	26950
Growth (%)	8.9	15.4	16.4	14.7	13.9
Operating Expenses	12027	13649	15976	18172	20576
EBITDA	3341	4086	4665	5495	6374
Growth (%)	4.1	22.3	14.2	17.8	16.0
EBITDA Margin (%)	21.7	23.0	22.6	23.2	23.7
Depreciation	401	429	432	438	444
EBIT	2940	3657	4233	5058	5929
Other Income	232	281	402	414	472
Interest expenses	5	15	6	7	7
PBT	3166	3923	4629	5465	6393
Tax	812	983	1157	1366	1576
RPAT	2354	2940	3472	4098	4817
APAT	2399	2984	3518	4147	4868
Growth (%)	14.3	24.4	17.9	17.9	17.4
EPS	3.3	4.1	4.8	5.7	6.7

Balance Sheet

As at March, Rs Cr	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	244	731	731	731	731
Reserves	12042	13131	15114	17506	20474
Shareholders' Funds	12286	13862	15845	18237	21205
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	-619	-501	-425	-361	-306
Long Term Provisions & Others	2026	1043	1138	1194	1254
Minority Interest	16	18	18	18	18
Total Source of Funds	13709	14422	16575	19089	22171
APPLICATION OF FUNDS					
Net Block & Goodwill	3235	3457	3763	4170	4562
CWIP	446	361	491	515	541
Other Non-Current Assets	2315	1122	1026	947	884
Total Non Current Assets	5996	4940	5280	5633	5987
Current Investments	0	0	0	0	0
Inventories	5592	6448	7351	8429	9599
Trade Receivables	6108	7033	8200	9402	10706
Cash & Equivalents	3332	5977	7504	8325	9548
Other Current Assets	12262	10089	9080	8172	7355
Total Current Assets	27294	29547	32135	34328	37207
Short-Term Borrowings	0	0	0	0	0
Trade Payables	3369	3408	3845	4344	4947
Other Current Liab & Provisions	16212	16657	16995	16528	16076
Total Current Liabilities	19581	20065	20840	20872	21023
Net Current Assets	7713	9482	11295	13456	16184
Total Application of Funds	13709	14422	16575	19089	22171

(Source: Company, HDFC sec)



Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	3,212	3,969	4,677	5,515	6,446
Non-operating & EO items	-137	-151	-402	-414	-472
Interest Expenses	2	11	6	7	7
Depreciation	401	429	432	438	444
Working Capital Change	1,534	-2,078	-286	-1,340	-1,505
Tax Paid	-804	-913	-1,157	-1,366	-1,576
OPERATING CASH FLOW (a)	4,207	1,267	3,270	2,839	3,346
Capex	-547	-589	-700	-750	-750
Free Cash Flow	3,660	678	2,570	2,089	2,596
Investments	-266	922	-20	-22	-24
Non-operating income	-4,058	2,358	518	515	559
INVESTING CASH FLOW (b)	-4,872	2,691	-202	-257	-215
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-2	-11	-6	-7	-7
FCFE	3,658	667	2,564	2,082	2,588
Share Capital Issuance	0	0	0	0	0
Dividend	-1,024	-1,243	-1,535	-1,754	-1,901
Other	-52	-59	0	0	0
FINANCING CASH FLOW (c)	-1,078	-1,313	-1,541	-1,761	-1,908
NET CASH FLOW (a+b+c)	-1,742	2,645	1,527	821	1,223

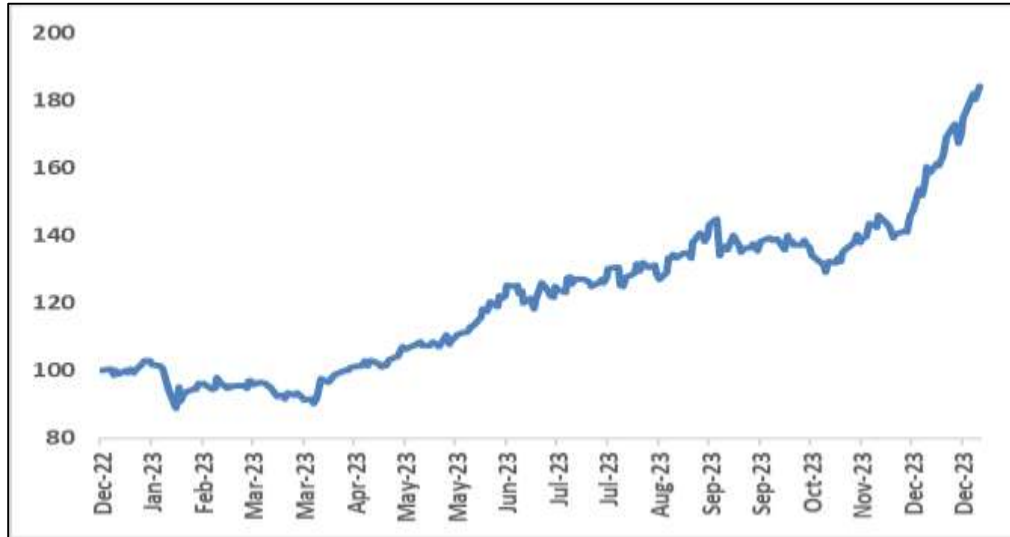
Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratio (%)					
EBITDA Margin	21.7	23.0	22.6	23.2	23.7
EBIT Margin	19.1	20.6	20.5	21.4	22.0
APAT Margin	15.6	16.8	17.0	17.5	18.1
RoE	20.6	22.8	23.7	24.3	24.7
RoCE	27.7	32.1	41.5	43.3	43.5
Solvency Ratio (x)					
Net Debt/EBITDA	-1.0	-1.5	-1.6	-1.5	-1.5
Net D/E	-0.3	-0.4	-0.5	-0.5	-0.5
PER SHARE DATA (Rs)					
EPS	3.3	4.1	4.8	5.7	6.7
CEPS	3.8	4.7	5.4	6.3	7.3
Dividend	1.5	1.8	2.1	2.4	2.6
BV	16.8	19.0	21.7	24.9	29.0
Turnover Ratios (days)					
Debtor days	145	145	145	145	145
Inventory days	133	133	130	130	130
Creditors days	80	70	68	67	67
VALUATION (x)					
P/E	56.1	45.1	38.3	32.5	27.7
P/BV	11.0	9.7	8.5	7.4	6.3
EV/EBITDA	39.3	31.5	27.3	23.0	19.6
EV / Revenues	8.5	7.3	6.2	5.3	4.6
Dividend Yield (%)	0.8	1.0	1.1	1.3	1.4

(Source: Company, HDFC sec)



One Year Price Chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

**Disclosure:**

I, **(Abdul Karim)**, Research Analyst, **(MBA)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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