

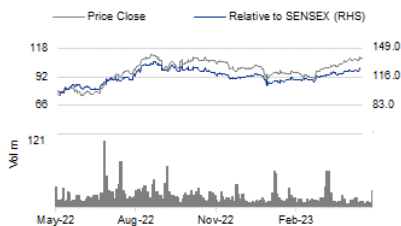
India

ADD (no change)

Consensus ratings*: Buy 27 Hold 1 Sell 2	
Current price:	Rs107
Target price: ▲	Rs140
Previous target:	Rs100
Up/downside:	30.8%
InCred Research / Consensus:	15.1%
Reuters:	BAJE.NS
Bloomberg:	BHE IN
Market cap:	US\$9,588m Rs784,339m
Average daily turnover:	US\$18.5m Rs1514.8m
Current shares o/s:	7,309.8m
Free float:	48.9%
*Source: Bloomberg	

Key changes in this note

- FY24F EBITDA and PAT raised by 5%.
- FY25F EBITDA and PAT raised by 9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.7	12.0	42.7
Relative (%)	5.3	10.3	25.9

Major shareholders	% held
Promoter	51.1
CPSE ETF	4.3
Kotak Mutual Fund	3.5

Analyst(s)



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Bharat Electronics Ltd

Robust outlook led by strong order pipeline

- 4Q sales (Rs64.6bn) & EBITDA (Rs18.2bn) rose by 2%/16% yoy, respectively. Gives guidance of ~17% revenue growth with 21-23% EBITDA margin.
- The order book stands at Rs607bn (3.5x TTM sales). Surge of large orders likely in FY24F-25F. Traction in exports & non-defence portfolio to aid growth.
- Reiterate ADD rating with a higher target price of Rs140 (Rs100 earlier).

4QFY23 results in line; improving EBITDA margin is a key positive

Bharat Electronics (BEL) reported muted sales at Rs64.6bn (up 2%yoy) for 4QFY23, in line with our estimate but 3% below Bloomberg consensus estimate (Rs66.5bn). EBITDA was at Rs18.2bn (up 16.4% yoy), 13.6% above Bloomberg consensus estimate of Rs16bn. BEL showcased strong EBITDA growth due to lower raw material expenses, leading to a significant improvement in margins to 28.3% (up 347bp yoy). For FY23, BEL posted a strong performance with a turnover of Rs173bn (up 15.2% yoy) with a better EBITDA margin of 23% vs. 21.6% in FY22. Reported profit after tax (PAT) was at Rs30bn, indicating a growth rate of 28%. The total dividend payout for FY23 was Rs1.8 per share, indicating a consistent payout of over 40%.

Order book position provides strong revenue outlook

As of end-Mar 2023, BEL's order book stood at Rs607bn, approximately 3.5x its trailing 12-month (TTM) sales. BEL recorded order bookings worth ~Rs205bn in FY23. Going ahead, BEL anticipates robust order booking of more than Rs200bn in FY24F. Significant orders are expected in the pipeline, which include Akash Missile System's ground support equipment (Rs45bn), fuses (~Rs45bn), shipbuilding projects (Rs50-60bn), and Shakti electronic warfare (~Rs10bn). BEL aims to maintain a 3x order book-to-sales ratio, ensuring a steady stream of revenue in the coming years.

Management projects 17% topline growth for FY24F

BEL's management projects a topline growth of around 17% for FY24F, driven by products and platform delivery timelines. The company expects the EBITDA margin in the range of 21%-23% for FY24F. As per BEL, export revenue is likely to touch US\$90-100m in FY24F.

Reiterate ADD rating with a higher target price of Rs140

We believe the strong order backlog, and the traction in exports & non-defence portfolio will drive near-term sales while large orders in the pipeline will also aid medium-term growth, with operating leverage supporting margins. We have increased our FY24F-25F EPS by 5-9% on better execution and margins. We have retained our ADD rating on BEL with a higher target price of Rs140 (Rs100 earlier) based on a P/E of 25x FY25F EPS vs. 22x earlier. Lower-than-estimated order wins and margins are key downside risks.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	138,182	150,437	173,334	203,436	237,518
Operating EBITDA (Rsm)	31,811	33,091	40,475	46,728	56,729
Net Profit (Rsm)	20,654	23,487	30,067	34,111	41,390
Core EPS (Rs)	2.8	3.2	4.1	4.7	5.7
Core EPS Growth	15.1%	13.7%	28.0%	13.5%	21.3%
FD Core P/E (x)	37.97	33.39	26.09	22.99	18.95
DPS (Rs)	1.4	1.4	1.8	2.0	2.5
Dividend Yield	1.30%	1.30%	1.68%	1.90%	2.31%
EV/EBITDA (x)	23.08	21.44	17.35	15.82	12.93
P/FCFE (x)	32.16	(111.17)	20.31	(35.57)	33.38
Net Gearing	(46.3%)	(62.6%)	(60.6%)	(29.2%)	(28.4%)
P/BV (x)	7.26	6.54	5.77	5.06	4.40
ROE	20.0%	20.6%	23.5%	23.5%	24.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Robust outlook led by strong order pipeline

Results in line; improving EBITDA margin is a key positive ►

Bharat Electronics (BEL) reported muted sales at Rs64.6bn (up 2%yoy) for 4QFY23, in line with our estimate but 3% below Bloomberg consensus estimate (Rs66.5bn). EBITDA was at Rs18.2bn (up 16.4% yoy), 13.6% above Bloomberg estimate of Rs16bn. BEL showcased strong EBITDA growth due to lower raw material expenses, leading to significant improvement in margins to 28.3% (up 347bp yoy). Reported PAT grew by 20% yoy to Rs13.7bn, exceeding the Bloomberg consensus estimate by 16%.

For FY23, BEL posted a strong performance with a turnover of Rs173bn (up 15.2% yoy) and a better EBITDA margin of 23% vs. 21.6% in FY22. Reported PAT touched Rs30bn, indicating a growth rate of 28%. BEL has consistently maintained a dividend payout of over 40%, distributing Rs1.8 per share for FY23.

Figure 1: Standalone quarterly analysis

YE March (Rs m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	FY23	FY22	yoy % chg
Total Revenue	64,566	63,249	2.1%	41,310	56.3%	1,76,462	1,53,138	15.2%
Less:								
Net Raw Materials Consumed	33,464	36,811	(9.1%)	24,157	38.5%	98,088	89,025	10.2%
Other Expenses	7,270	4,983	45.9%	2,944	146.9%	14,921	9,926	50.3%
Personnel	5,584	5,778	(3.3%)	5,674	(1.6%)	22,977	21,094	8.9%
Total Expenditure	46,318	47,571	(2.6%)	32,775	41.3%	1,35,987	1,20,045	13.3%
EBIDTA	18,248	15,678	16.4%	8,535	113.8%	40,475	33,092	22.3%
Less: Depreciation	1,088	1,010	7.7%	1,008	7.9%	4,079	3,802	7.3%
EBIT	17,160	14,668	17.0%	7,527	128.0%	36,397	29,291	24.3%
Less: Interest Paid	23	41	(43.2%)	97	(100.4%)	148	49	204.9%
Non-operating Income	679	638	6.5%	575	18.1%	3,601	2,336	54.2%
Profit Before Tax	17,816	15,266	16.7%	8,004	122.6%	39,850	31,578	26.2%
Less: Total Tax	4,161	3,848	8.2%	2,017	106.4%	9,782	8,089	20.9%
Profit After Tax	13,655	11,418	19.6%	5,988	128.0%	30,068	23,489	28.0%
Reported EPS-Diluted (Rs.)	1.87	1.56	19.6%	0.82	128.0%	4.1	3.2	28.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

Margin Analysis	4QFY23	4QFY22	chg (bp)	3QFY23	chg (bp)	FY23	FY22	chg (bp)
Raw Material % of Total Revenue	51.8%	58.2%	-637	58.5%	-665	55.6%	58.1%	-255
EBITDA Margin	28.3%	24.8%	347	20.7%	760	22.9%	21.6%	133
Proforma NPM	21.1%	18.1%	310	14.5%	665	17.0%	15.3%	170
Effective Tax Rate (%)	23.4%	25.2%	-185	25.2%	-184	24.5%	25.6%	-107

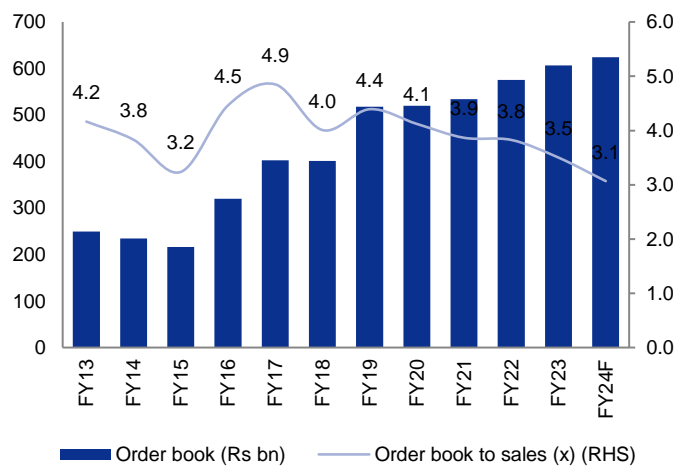
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Order book position provides strong revenue outlook

As of end-Mar 2023, BEL's order book stood at Rs607bn, which is approximately 3.5x trailing 12-month (TTM) sales. BEL has recorded order bookings worth ~Rs205bn in FY23.

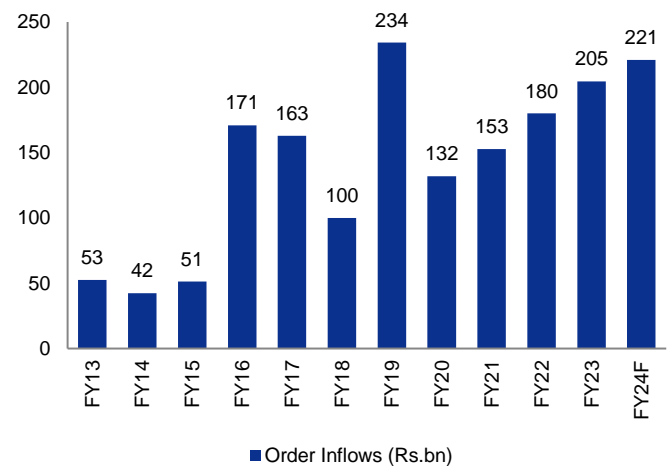
Going ahead, BEL anticipates robust order bookings, at more than Rs200bn in FY24F. Significant orders are expected in the pipeline, which include Akash Missile System's ground support equipment (Rs45bn), fuses (Rs45bn), ship-building projects (Rs50-60bn), and Shakti electronic warfare (~Rs10bn). BEL aims to maintain the 3x order book-to-sales ratio, thereby ensuring a steady stream of revenue in the coming years.

Figure 3: Order book-to-sales ratio of 3.5x as at end-FY23 provides revenue visibility



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Order inflow



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BEL projects 17% topline growth in FY24F

BEL projects a topline growth of around 17% in FY24F, driven by products and platform delivery timeline. The company expects its EBITDA margin in the range of 21%-23% for FY24F. As per BEL, export revenue is projected to touch US\$90-100m in FY24F.

Management conference-call highlights

Revenue mix and diversification: In FY23, BEL's revenue mix comprised 87% from the defence segment, 10.6% from the non-defence segment, and 2.4% from exports. The company foresees a marginal increase in its non-defence portfolio in FY24F, primarily attributable to the contribution from Electronic Voting Machines (EVM) and Voter Verifiable Paper Audit Trail (VVPAT) equipment business. BEL intends to maintain a revenue mix comprising 85% from the defence segment and 15% from the non-defence segment going ahead.

Capex and expansion plan: BEL plans to allocate Rs7-8bn towards capital expenditure in FY24F. The company aims to expand its capacity by focusing on the expansion of existing factories and the construction of new ones. These additional capacities are expected to be commissioned within the next two-to-three years, further strengthening BEL's manufacturing capability.

Export growth and R&D focus: BEL's export revenue in FY23 amounted to US\$48m (Rs4bn). The company aims to double its export revenue to ~US\$80-100m in FY24F. R&D expenses accounted for Rs10.8bn in FY23 (~6.2% of total revenue). BEL plans to maintain R&D expenditure at around 7% of its total turnover in FY24F and beyond. The company employs a skilled workforce comprising approximately 2,700 scientists and engineers in its R&D division.

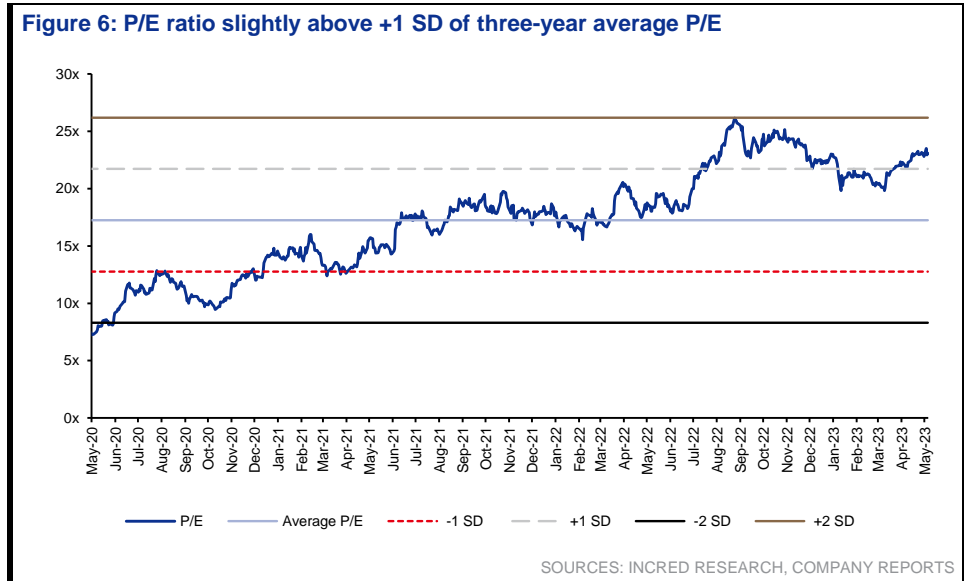
Product development: In FY23, ~40-45% of the products were based on the Defence Research and Development Organization's (DRDO) technology, ~30% were developed using the in-house technology, and the remaining 20-25% came from technology transfer (ToT) arrangements. This diversified product development strategy enables BEL to leverage both internal expertise and external collaborations to offer a wide range of advanced electronic solutions.

Figure 5: Earnings revision summary

(Rs m)	Old estimates		New estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,94,531	2,20,028	2,07,108	2,41,804	6.5%	9.9%
EBITDA	44,583	51,706	46,728	56,729	4.8%	9.7%
Core PAT	32,406	37,931	34,111	41,390	5.3%	9.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

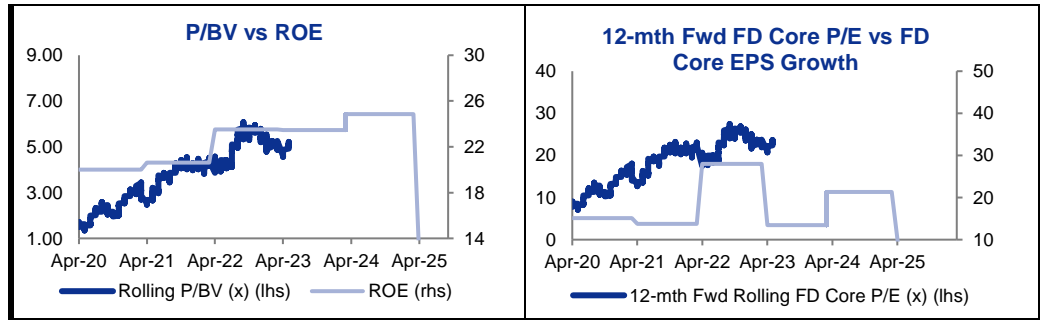
Figure 6: P/E ratio slightly above +1 SD of three-year average P/E



Reiterate ADD rating on BEL with a higher target price of Rs140

We believe the strong order backlog, and the traction in exports and non-defence portfolio will drive near-term sales and large orders in the pipeline to aid medium-term growth, while operating leverage will support margins. We have increased our FY24F-25F EPS by 5-9% on better execution and margins. We have retained our ADD rating on BEL with a higher target price of Rs140 (Rs100 earlier) based on a P/E of 25x FY25F EPS vs. 22x earlier). Lower-than-estimated order wins and margins are key downside risks.

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	140,638	153,138	176,462	207,108	241,804
Gross Profit	62,360	64,113	78,374	89,056	103,976
Operating EBITDA	31,811	33,091	40,475	46,728	56,729
Depreciation And Amortisation	(3,663)	(3,802)	(4,079)	(4,654)	(5,289)
Operating EBIT	28,148	29,289	36,397	42,075	51,440
Financial Income/(Expense)	(61)	(49)	(148)		
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,261	2,336	3,600	3,134	3,417
Profit Before Tax (pre-EI)	29,348	31,576	39,849	45,208	54,856
Exceptional Items					
Pre-tax Profit	29,348	31,576	39,849	45,208	54,856
Taxation	(8,694)	(8,089)	(9,782)	(11,098)	(13,466)
Exceptional Income - post-tax					
Profit After Tax	20,654	23,487	30,067	34,111	41,390
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	20,654	23,487	30,067	34,111	41,390
Recurring Net Profit	20,654	23,487	30,067	34,111	41,390
Fully Diluted Recurring Net Profit	20,654	23,487	30,067	34,111	41,390

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	31,811	33,091	40,475	46,728	56,729
Cash Flow from Invt. & Assoc.	(2,463)	(1,513)	(626)	(1,520)	(1,872)
Change In Working Capital	22,597	15,498	(21,179)	(52,813)	(16,179)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	3,663	3,802	4,079	4,654	5,289
Other Operating Cashflow	(69)	(1,254)	(2,640)	(3,134)	(3,417)
Net Interest (Paid)/Received	(61)	(49)	(148)		
Tax Paid	(5,323)	(8,024)	(9,150)	(11,098)	(13,466)
Cashflow From Operations	50,156	41,550	10,811	(17,182)	27,084
Capex					
Disposals Of FAs/subsidiaries	13	74	17		
Acq. Of Subsidiaries/investments	(6,371)	(7,765)	3,260	(8,000)	(7,000)
Other Investing Cashflow	(19,328)	(40,914)	24,522	3,134	3,417
Cash Flow From Investing	(25,686)	(48,606)	27,799	(4,866)	(3,583)
Debt Raised/(repaid)	(83)				
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,227)	(10,233)	(12,424)	(14,927)	(18,113)
Preferred Dividends					
Other Financing Cashflow	(425)	(492)	(617)		
Cash Flow From Financing	(10,736)	(10,725)	(13,041)	(14,927)	(18,113)
Total Cash Generated	13,734	(17,780)	25,569	(36,976)	5,388
Free Cashflow To Equity	24,386	(7,055)	38,610	(22,048)	23,501
Free Cashflow To Firm	24,531	(7,007)	38,757	(22,048)	23,501

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	50,082	74,991	82,259	45,283	50,671
Total Debtors	65,515	61,034	70,220	82,415	96,222
Inventories	49,547	55,669	64,121	75,256	87,864
Total Other Current Assets	75,279	87,229	86,876	102,238	119,366
Total Current Assets	240,423	278,924	303,475	305,192	354,123
Fixed Assets	32,163	33,826	35,135	38,481	40,192
Total Investments	13,312	15,542	6,901	6,901	6,901
Intangible Assets					
Total Other Non-Current Assets	4,634	6,207	5,034	5,034	5,034
Total Non-current Assets	50,109	55,576	47,070	50,416	52,127
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	150,841	178,541	178,079	157,595	177,753
Other Current Liabilities	31,612	36,116	36,646	43,011	50,216
Total Current Liabilities	182,453	214,657	214,725	200,605	227,969
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions					
Total Liabilities	182,453	214,657	214,725	200,605	227,969
Shareholders Equity	108,079	119,843	135,820	155,003	178,281
Minority Interests					
Total Equity	108,079	119,843	135,820	155,003	178,281

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	9.6%	8.9%	15.2%	17.4%	16.8%
Operating EBITDA Growth	16.5%	4.0%	22.3%	15.4%	21.4%
Operating EBITDA Margin	23.0%	22.0%	23.4%	23.0%	23.9%
Net Cash Per Share (Rs)	6.85	10.26	11.25	6.19	6.93
BVPS (Rs)	14.79	16.39	18.58	21.20	24.39
Gross Interest Cover	462.96	603.89	246.09		
Effective Tax Rate	29.6%	25.6%	24.5%	24.5%	24.5%
Net Dividend Payout Ratio	49.5%	43.6%	43.8%	43.8%	43.8%
Accounts Receivables Days	172.39	150.81	135.75	134.50	134.82
Inventory Days	207.90	215.69	222.88	215.47	215.99
Accounts Payables Days	(133.40)	(136.59)	(124.40)	(111.56)	(111.83)
ROIC (%)	63.0%	99.9%	78.0%	40.9%	42.6%
ROCE (%)	27.2%	25.7%	28.5%	28.9%	30.9%
Return On Average Assets	7.8%	7.5%	8.8%	9.7%	10.9%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Order backlog (Rs m)	5,34,330	5,75,700	6,06,900	6,24,361	6,96,098
Order inflows (Rs m)	1,52,780	1,80,000	2,04,534	2,20,897	3,09,255
Book to bill ratio (%)	26.6%	28.2%	30.1%	33.5%	38.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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