

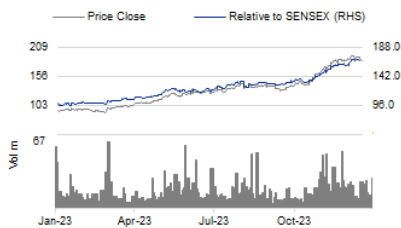
India

ADD (no change)

Consensus ratings*:	Buy 18 Hold 6 Sell 3
Current price:	Rs183
Target price:	Rs235 ▲
Previous target:	Rs170
Up/downside:	28.4%
InCred Research / Consensus:	20.0%
Reuters:	BAJE.NS
Bloomberg:	BHE IN
Market cap:	US\$16,156m Rs1,340,613m
Average daily turnover:	US\$32.8m Rs2724.1m
Current shares o/s:	7,309.8m
Free float:	48.9%
*Source: Bloomberg	

Key changes in this note

- Roll forward target price to Dec 2025F EPS.
- Reduce FY24F/26F revenue by 1-3%.
- Increase FY24F/25F EPS by 14%/ 4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.8)	38.5	101.6
Relative (%)	(0.5)	23.9	68.7

Major shareholders	% held
Promoter	51.1
Kotak Mutual Fund	3.2
HDFC Mutual Fund	2.7

Research Analyst(s)

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Bharat Electronics Ltd

Strong recovery expected in 4QFY24F

- 3Q sales (Rs41bn)/ EBITDA (Rs10bn) were flat/up by 23% yoy, respectively. Maintains guidance of ~15% revenue growth with a 21-23% EBITDA margin.
- The order book stands at Rs768bn (4.4x TTM sales). A surge in large orders is likely in FY25F/26F. Traction in exports & non-defence portfolio to aid growth.
- We believe BEL can sustain its premium valuation due to strong new order win & execution momentum. Retain ADD rating with a higher TP of Rs235.

3QFY23 results flat yoy; better product mix improves EBITDA margin

Bharat Electronics (BEL) reported muted sales growth at Rs41bn (flat yoy) for 3QFY23, missing InCred/Bloomberg consensus estimates by 15%-18%. The results were impacted due to the delay in delivery of some materials from Israel, which impacted BEL's dispatches. The impact is estimated to be ~Rs4bn. BEL stated that the materials were received in Jan 2024. EBITDA stood at Rs10.5bn (up 23% yoy), slightly below our/Bloomberg consensus estimates. BEL showcased strong EBITDA growth due to a better product mix leading to significant improvement in margins to 25.4% (up 471bp yoy).

Order book position provides strong revenue outlook

As of end-Dec 2023, BEL's order book stood at Rs768bn, approximately 4.3x its trailing 12-month (TTM) sales. BEL witnessed order bookings worth ~Rs122bn in 3QFY24, taking the total new orders won to Rs276bn. Robust order-booking, surpassing BEL's guidance of Rs200bn for FY24F, provides strong revenue visibility. Further, BEL expects to win new orders worth ~Rs30bn in 4QFY24F. Significant orders in the pipeline are expected in the near term, which includes Shakti (EW system for ships, ~Rs10-20bn), and BMP tank upgrade – Rs30bn. BEL aims to maintain a 3x order book-to-sales ratio, ensuring a steady stream of revenue in the coming years.

Management projects 15% topline growth in FY24F

BEL's management maintains to achieve the lower end of its guidance and projects a topline growth of around 15% in FY24F, driven by products and platform delivery timelines. The company expects its EBITDA margin in the range of 21%-23% in FY24F. As per BEL, export revenue is likely to be in the range of US\$90-100m in FY24F.

Reiterate ADD rating with a higher target price of Rs235

We believe the strong order backlog, and the traction in exports & non-defence portfolio will drive near-term sales. Record-high order wins in FY24F and a large value order pipeline of over Rs500bn for FY25F/26F, combined with consistent execution and margins, instills confidence in BEL's ability to maintain its premium valuation. We have retained our ADD rating on BEL with a higher target price of Rs235 (Rs170 earlier) as we roll forward our valuation based on a P/E of 35x Dec 2025F EPS vs. 27x earlier. Lower-than-estimated order wins and margins are key downside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	153,138	176,462	204,545	237,812	277,904
Operating EBITDA (Rsm)	33,091	40,476	48,821	56,433	66,932
Net Profit (Rsm)	23,487	30,067	39,026	43,245	50,361
Core EPS (Rs)	3.2	4.1	5.3	5.9	6.9
Core EPS Growth	13.7%	28.0%	29.8%	10.8%	16.5%
FD Core P/E (x)	57.08	44.59	34.35	31.00	26.62
DPS (Rs)	1.4	1.7	2.2	2.4	2.8
Dividend Yield	0.76%	0.93%	1.20%	1.33%	1.55%
EV/EBITDA (x)	38.25	31.14	26.14	22.71	19.26
P/FCFE (x)	(190.02)	34.72	4,991.56	107.93	100.49
Net Gearing	(62.6%)	(59.0%)	(40.5%)	(31.9%)	(24.0%)
P/BV (x)	11.19	9.87	8.45	7.28	6.28
ROE	20.6%	23.5%	26.5%	25.2%	25.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong recovery expected in 4QFY24F

Management conference-call highlights

- BEL's 3QFY24 results were slightly impacted due to the delay in delivery of certain materials from Israel because of the Israel-Hamas conflict leading to an estimated ~Rs4-5bn hit. BEL stated that these materials were received from Israel in Jan 2024. The EBITDA margin in 3QFY24 was boosted due to a better product mix.
- **Guidance:** Maintains to achieve the lower end of its revenue guidance for FY24F, with a revenue growth target of 15% and EBITDA margin of 21%-23%. The order inflow is seen surpassing Rs285bn in FY24F.
- **Revenue mix:** In 9MFY24, BEL's revenue mix comprised 80% from the defence segment and 20% from the non-defence segment. The revenue mix is expected to remain defence sector-dominated for at least the next two-to-three years, with the defence segment revenue growing faster than the non-defence segment. BEL stated that it has executed almost all orders for Electronic Voting Machines (EVMs) and Voter Verifiable Paper Audit Trail (VVPAT). We believe the contribution from the non-defence segment and overall margins will normalize in FY25F.
- **Order book and its execution:** The order book stands at Rs768bn, with an execution time of approximately 3-3.5 years. Notable orders include LRSAM (Rs65bn), Akash Prime (Rs37bn), Fuses (Rs45bn), next-generation offshore patrol vessel (NGOPV) from Goa Shipyard and Garden Reach Ship Building or GRSE (Rs26bn), battlefield surveillance system (~Rs20bn) Himshakti and MPR Arudhra.
- **Order pipeline:** Upcoming orders include Shakti (EW system for ships, ~Rs10-20bn), and BMP tank upgrade – Rs30bn. BEL aims to maintain a 3x order book-to-sales ratio, ensuring a steady stream of revenue in the coming years.
- **Medium-term growth:** The growth momentum will be maintained through traditional core products, such as C4I Systems, missile systems (QRSAM or LRSAM), radar systems, radar upgrades, tank electronics, electro-optic systems, and upgrade programs for tanks and BMPs.
- **Capital expenditure:** BEL incurred a capex of ~Rs4bn in 9MFY24. The company plans to allocate Rs7-8bn towards capital expenditure in FY24F and a similar sum in FY25F. The company aims to expand its capacity by focusing on the expansion of existing factories and the construction of new ones, some plant and machinery and some test set-ups. These additional capacities are expected to be commissioned within the next two-to-three years, further strengthening BEL's manufacturing capability.
- **Israel-Hamas war impact: Exposure to Israel:** LRSAM (Rs65bn), EW Systems (Rs10bn) and electro-optics projects (Rs5bn). The overall exposure to where the dependency on Israel lies: ~Rs40-50bn under execution in FY24F and FY25F. While the company expects some delay, it sees no material impact as the partners in Israel are confident of mitigating temporary setbacks and meeting their commitments by the end of FY24F (mainly for LRSAM).
- **Russia-Ukraine war impact:** BEL had some exposure to some of the equipment related to tank electronics. BEL has successfully indigenized it and it expects no dependency on Russia for tank electronics from next year.
- **Non-defence segment:** BEL's focus areas in the non-defence segment includes smart cities, EVM and VVPAT machines. Also, the company expects increased opportunities in metro rail, civil aviation and cyber security.
- **New products under development: (i) Indigenous Air Traffic Management System (ATMS):** Opportunity for supplying ATMS to C & D category mid-size airports, potentially around 40 airports with a total opportunity size of Rs8-9bn. **(ii) Railways:** BEL has developed a number of innovative technologies, including the automatic train supervision system, the computer-based train

control (CBTC) system, the super SCADA system, and the indigenous platform screen door (PSD). BEL is the only original equipment manufacturer or OEM in India offering PSD technology.

Figure 1: Standalone quarterly analysis

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy chg (%)	2QFY24	qoq chg (%)
Total Revenue	41,367	41,310	0.1%	39,933	3.6%
Less:					
Net Raw Materials Consumed	21,370	24,157	(11.5%)	20,452	4.5%
Other Expenses	3,307	2,944	12.3%	3,504	(5.6%)
Personnel Costs	6,196	5,674	9.2%	5,934	4.4%
Total Expenditure	30,873	32,775	(5.8%)	29,890	3.3%
EBITDA	10,494	8,535	23.0%	10,044	4.5%
Less: Depreciation	998	1,008	(1.0%)	1,004	(0.6%)
EBIT	9,496	7,527	26.2%	9,039	5.1%
Less: Interest Paid	5	97	(94.8%)	15	(106.3%)
Non-Operating Income	2,232	575	288.3%	1,705	30.9%
Profit Before Tax	11,723	8,004	46.5%	10,729	9.3%
Less: Total Tax	2,790	2,017	38.3%	2,606	7.0%
Profit After Tax	8,933	5,988	49.2%	8,123	10.0%
Reported EPS (Rs.)	1.22	0.82	49.2%	1.11	10.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

Margin Analysis	3QFY24	3QFY23	yoy bp chg	2QFY24	qoq bp chg
Raw Material Costs as a % of Total Revenue	51.7%	58.5%	-682	51.2%	44
EBITDA Margin	25.4%	20.7%	471	25.2%	22
PAT Margin	21.6%	14.5%	710	20.3%	125
Effective Tax Rate (%)	23.8%	25.2%	-140	24.3%	-49

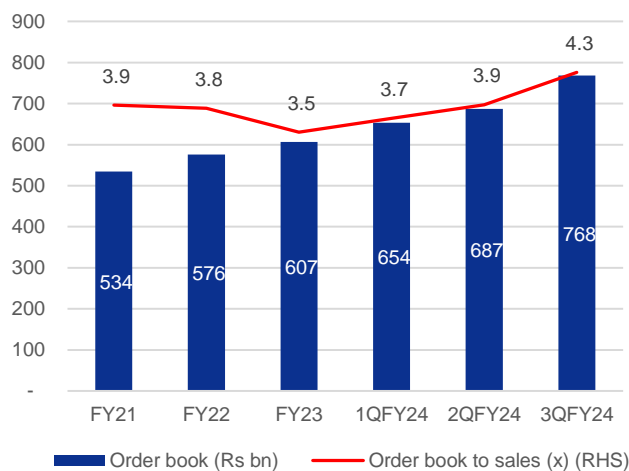
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly performance vs. estimates

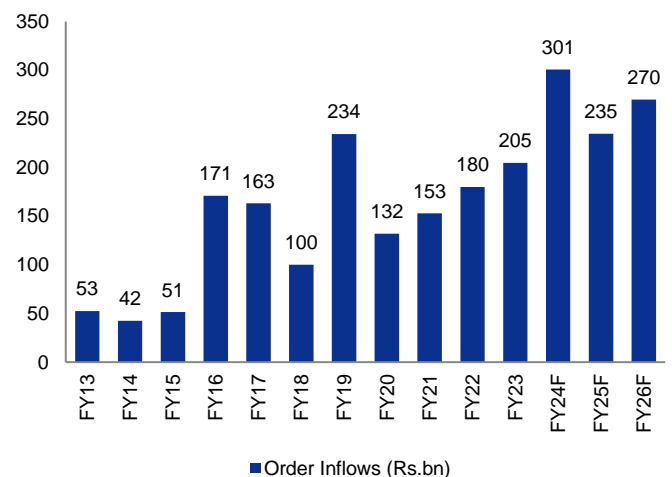
(Rs bn)	Actuals	InCred est.	Difference (%)	Bloomberg est.	Difference (%)
Revenue	41.4	50.4	(17.9)	48.5	(14.7)
EBITDA	10.5	11.1	(5.4)	10.6	(1.4)
EBITDA Margin (%)	25.4	22.0		21.9	
Adj. PAT	8.9	7.9	13.2	7.9	13.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: The order book-to-sales ratio of 4.3x in 3QFY24 provides Figure 5: Order inflow revenue visibility



SOURCE: INCRED RESEARCH, COMPANY REPORTS



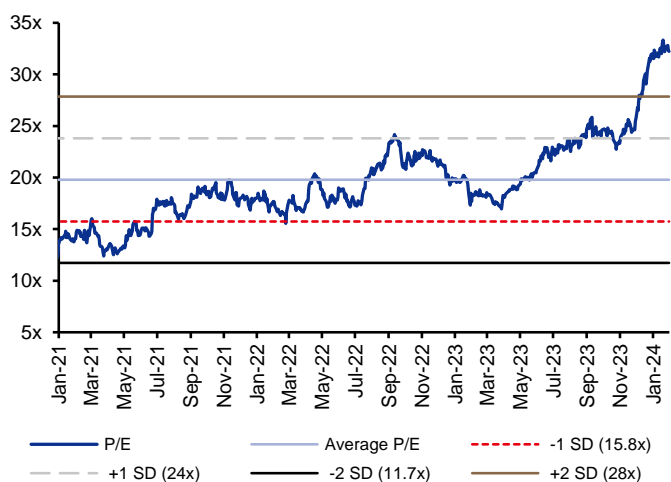
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Earnings revision summary

(Rs m)	Old estimates			New estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	2,07,108	2,43,304	2,87,098	2,04,545	2,37,812	2,77,904	-1.2%	-2.3%	-3.2%
EBITDA	46,729	57,247	70,232	48,821	56,433	66,932	4.5%	-1.4%	-4.7%
Core PAT	34,113	41,783	50,695	39,026	43,245	50,361	14.4%	3.5%	-0.7%

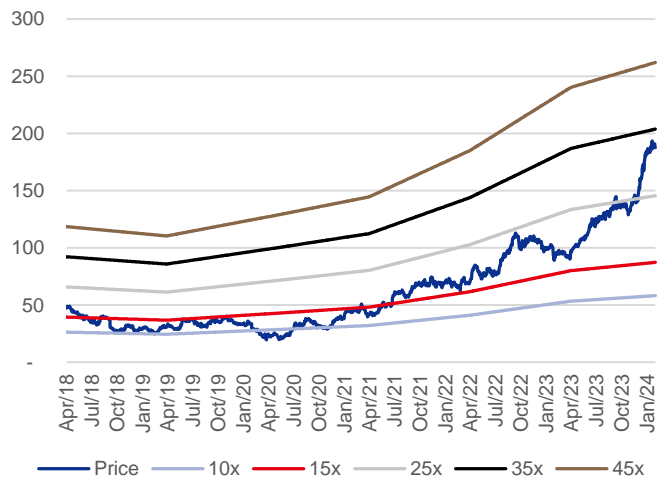
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: P/E ratio above +2 SD of three-year average



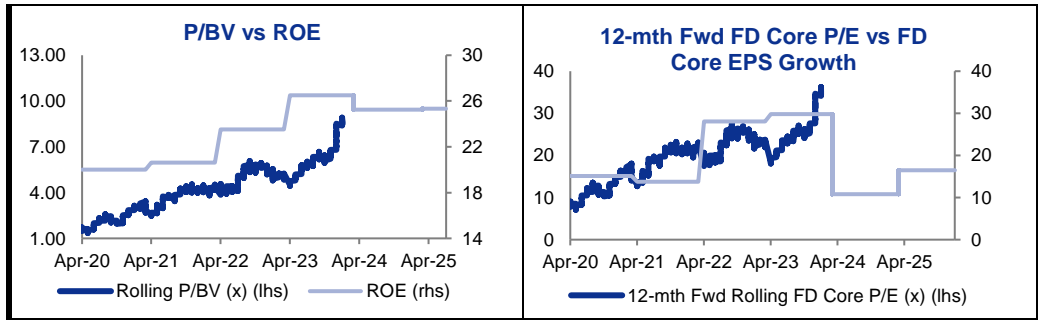
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	153,138	176,462	204,545	237,812	277,904
Gross Profit	64,113	78,374	90,000	102,259	118,109
Operating EBITDA	33,091	40,476	48,821	56,433	66,932
Depreciation And Amortisation	(3,802)	(4,079)	(4,608)	(5,202)	(5,796)
Operating EBIT	29,289	36,397	44,212	51,231	61,136
Financial Income/(Expense)	(49)	(148)			
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,336	3,600	7,510	6,083	5,610
Profit Before Tax (pre-EI)	31,576	39,849	51,723	57,314	66,746
Exceptional Items					
Pre-tax Profit	31,576	39,849	51,723	57,314	66,746
Taxation	(8,089)	(9,782)	(12,697)	(14,069)	(16,385)
Exceptional Income - post-tax					
Profit After Tax	23,487	30,067	39,026	43,245	50,361
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,487	30,067	39,026	43,245	50,361
Recurring Net Profit	23,487	30,067	39,026	43,245	50,361
Fully Diluted Recurring Net Profit	23,487	30,067	39,026	43,245	50,361

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	33,091	40,476	48,821	56,433	66,932
Cash Flow from Invt. & Assoc.	(1,513)	(627)	2,902	881	(186)
Change In Working Capital	15,498	(21,179)	(36,366)	(29,025)	(35,816)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	3,802	4,079	4,608	5,202	5,796
Other Operating Cashflow	(1,254)	(2,640)	(7,510)	(6,083)	(5,610)
Net Interest (Paid)/Received	(49)	(148)			
Tax Paid	(8,024)	(9,150)	(12,697)	(14,069)	(16,385)
Cashflow From Operations	41,550	10,811	(242)	13,339	14,731
Capex					
Disposals Of FAs/subsidiaries	74	17			
Acq. Of Subsidiaries/investments	(7,765)	3,260	(7,000)	(7,000)	(7,000)
Other Investing Cashflow	(40,914)	24,522	7,510	6,083	5,610
Cash Flow From Investing	(48,606)	27,799	510	(917)	(1,390)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,233)	(12,424)	(16,130)	(17,873)	(20,815)
Preferred Dividends					
Other Financing Cashflow	(492)	(617)			
Cash Flow From Financing	(10,725)	(13,041)	(16,130)	(17,873)	(20,815)
Total Cash Generated	(17,780)	25,569	(15,861)	(5,452)	(7,474)
Free Cashflow To Equity	(7,055)	38,610	269	12,421	13,341
Free Cashflow To Firm	(7,007)	38,757	269	12,421	13,341

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	74,991	80,090	64,229	58,777	51,303
Total Debtors	61,034	70,220	81,395	94,633	110,587
Inventories	55,669	64,121	74,325	86,413	100,981
Total Other Current Assets	87,229	89,302	100,968	117,389	137,179
Total Current Assets	278,924	303,732	320,917	357,212	400,051
Fixed Assets	33,826	35,135	37,526	39,324	40,528
Total Investments	15,542	6,644	6,644	6,644	6,644
Intangible Assets					
Total Other Non-Current Assets	6,207	5,034	5,034	5,034	5,034
Total Non-current Assets	55,576	46,813	49,204	51,002	52,206
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	178,541	181,374	172,747	179,181	186,101
Other Current Liabilities	36,116	33,351	38,658	44,945	52,523
Total Current Liabilities	214,657	214,725	211,405	224,126	238,624
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions					
Total Liabilities	214,657	214,725	211,405	224,126	238,624
Shareholders Equity	119,843	135,820	158,716	184,087	213,634
Minority Interests					
Total Equity	119,843	135,820	158,716	184,087	213,634

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	8.9%	15.2%	15.9%	16.3%	16.9%
Operating EBITDA Growth	4.0%	22.3%	20.6%	15.6%	18.6%
Operating EBITDA Margin	21.6%	22.9%	23.9%	23.7%	24.1%
Net Cash Per Share (Rs)	10.26	10.96	8.79	8.04	7.02
BVPS (Rs)	16.39	18.58	21.71	25.18	29.23
Gross Interest Cover	603.89	246.09			
Effective Tax Rate	25.6%	24.5%	24.5%	24.5%	24.5%
Net Dividend Payout Ratio	43.6%	41.3%	41.3%	41.3%	41.3%
Accounts Receivables Days	150.81	135.75	135.27	135.09	134.77
Inventory Days	215.69	222.88	220.58	216.41	214.02
Accounts Payables Days	136.59	124.40	114.21	112.05	110.82
ROIC (%)	99.9%	74.1%	50.3%	43.2%	39.3%
ROCE (%)	25.7%	28.5%	30.0%	29.9%	30.7%
Return On Average Assets	7.5%	8.8%	10.8%	11.1%	11.7%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Order backlog (Rs m)	575,700	606,900	706,646	707,569	704,287
Order inflows (Rs m)	180,000	204,534	300,665	234,519	269,697
Book to bill ratio (%)	28	30	33	33	39

SOURCES: 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
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been engaged in market making activity for the subject company	NO	NO

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