

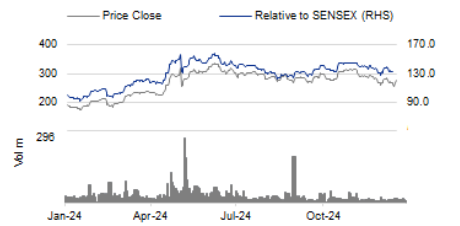
India

ADD (no change)

Consensus ratings*: Buy 21 Hold 2 Sell 3	
Current price:	Rs279
Target price: ▲	Rs400
Previous target:	Rs235
Up/downside:	43.4%
InCred Research / Consensus:	15.2%
Reuters:	BAJE.NS
Bloomberg:	BHE IN
Market cap:	US\$23,522m
	Rs2,037,601m
Average daily turnover:	US\$74.2m
	Rs6428.6m
Current shares o/s:	7,309.8m
Free float:	48.9%
*Source: Bloomberg	

Key changes in this note

► For FY25F-26F, we raise revenue estimates by 6-8% and PAT estimates by 23-27%. We introduce FY27F EPS of Rs10. Retain ADD rating with a higher target price of Rs400.

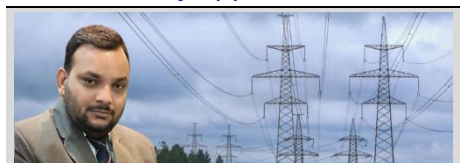


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.2)	(3.4)	48.4
Relative (%)	(0.4)	(0.1)	38.7

Major shareholders	% held
Promoter	51.1
Kotak Mutual Fund	2.7
CPSE ETF	3.6

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Bharat Electronics Ltd

Robust performance; order inflow to pick up

- 3Q EBITDA stood at Rs16.5bn (up 58% yoy), beating our/Bloomberg consensus estimates by 35%/55%. EBITDA margin rose by 335bp to 28.7%.
- The order book stood at Rs711bn, ~3.1x TTM sales. Order inflow remains subdued in 3Q. Management retained inflow guidance of Rs250bn for FY25F.
- For FY25F-26F, we raise revenue estimates by 6-8% & PAT estimates by 23-27%. Retain ADD rating with a higher TP of Rs400, or 40x FY27F EPS.

Healthy order execution-led growth

Bharat Electronics (BEL) reported a healthy 3QFY25 revenue of Rs57.6bn, up 39% YoY (26% QoQ), beating InCred/Bloomberg (BB) consensus estimates by ~14%. For 9MFY25, revenue grew by 25% YoY led by execution of LR-SAM, Weapon Locating Radar, Shakti Electronic Warfare and a civilian project. EBITDA stood at Rs16.5bn (up 58% yoy), beating our/Bloomberg consensus estimates by 35%/55%, respectively. Despite a 33bp YoY contraction in gross margin, the EBITDA margin improved by 335bp to 28.7%, led by lower employee costs and a better product mix. PAT came in at Rs13.2bn, up 47% YoY, 33% above our estimate and 38% above BB consensus estimate.

Order book position provides strong revenue outlook

At the end of Dec 2024, BEL's order book stood at Rs711bn, ~3.1x its trailing 12-month (TTM) sales. The order inflow was subdued in 3Q, with the total inflow at Rs111bn in 9MY25, but management retained its inflow guidance of Rs250bn for FY25F as it expects large inflows to kick in during 4QFY25F. For FY26F, management expects an order inflow of Rs250-500bn led by large orders like QRSAM (Rs250bn) and MRSAM package (Rs150bn), which provide revenue visibility post FY26F. BEL continues to explore new growth opportunities.

Non-defence sectors' contribution to increase

Currently, non-defence sectors and exports contribute around 11% to revenue, with non-defence sectors accounting for 8% & exports at 3%. BEL aims to increase its non-defence contribution to ~20%. As regards the Kavach railway project, BEL is still at the R&D stage and prototype phase & it expects to proceed with larger tenders by mid- 2025F.

Reiterate ADD rating with a higher target price of Rs400

We feel the strong order backlog, traction in exports & the non-defence portfolio will drive near-term sales. Healthy order inflow in 4QFY25F and a large value order pipeline, combined with consistent execution & margin, and the confidence in BEL's abilities will help maintain its premium valuation. For FY25F-26F, we raise revenue estimates by 6-8% and PAT estimates by 23-27%, factoring in the robust performance in the last few quarters and strong outlook. We have introduced FY27F EPS of Rs10 on a revenue of Rs341bn. Retain our ADD rating on BEL with a higher target price of Rs400 (Rs235 earlier) as we roll forward our valuation based on a P/E of 40x FY27F EPS (from Dec 2025F at 27x EPS earlier). Lower-than-estimated order wins and margin are key downside risks.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	153,138	176,462	201,694	252,000	299,430
Operating EBITDA (Rsm)	33,092	40,475	49,982	69,802	78,233
Net Profit (Rsm)	23,489	30,067	40,200	54,833	62,126
Core EPS (Rs)	9.6	6.2	5.5	7.5	8.5
Core EPS Growth	13.7%	(36.0%)	(10.9%)	36.4%	13.3%
FD Core P/E (x)	28.92	45.18	50.69	37.16	32.80
DPS (Rs)	1.4	1.7	2.0	2.9	3.2
Dividend Yield	1.51%	0.61%	0.72%	1.02%	1.16%
EV/EBITDA (x)	18.26	31.58	38.57	27.41	24.14
P/FCFE (x)	(97.11)	34.50	(164.21)	59.97	44.62
Net Gearing	(62.6%)	(59.0%)	(68.2%)	(63.9%)	(63.7%)
P/BV (x)	5.67	15.00	12.67	10.46	8.73
ROE	20.6%	23.5%	27.1%	30.8%	29.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY25 management conference-call highlights

- **Execution-led growth in 3QFY25:** BEL's remarkable performance for the quarter was primarily driven by the execution of significant orders, including LR-SAM, Weapon Locating Radar (WLR), ISCCS System, Shakti Electronic Warfare (EW) System, and a civilian project. These projects, particularly the defence contracts, played a key role in the company's strong results. In 9MFY25, BEL's revenue increased by 25% YoY, while the EBITDA margin expanded by 400bp to 27.4%. The order book is likely to surpass Rs850bn over the next two-to-three quarters led by a strong pipeline of orders and ongoing projects. BEL's gross margin in 9MFY25 stood at 44.5%, which is within the guided range of 42-44%.
- **Large inflows expected in 4QFY25F:** Despite subdued order inflow during 9MFY25 at Rs110bn, management maintained its FY25F inflow guidance of Rs250bn. Several major orders, including the Ashwini Radar, Electronic Warfare for MI-17, ATULYA, and Shakti Phase IV, are in the final stages of contract finalization. Management remains confident of securing additional orders in 4QFY25F. The QR-SAM program, though delayed due to discussions on configuration changes, is expected to be finalized within the next 6-12 months, while the MR-SAM contract is likely to be finalized next year.
- **Impact of delay at HAL:** BEL clarified that it has not faced any issues in supplying electronic modules for the LCA program of Hindustan Aeronautics or HAL. Despite initial challenges, the production rate has been streamlined, and BEL is meeting the required targets without any further problems.
- **Non-defence sectors' contribution to increase:** Currently, non-defence and exports contribute approximately 11% to revenue, with non-defence sectors accounting for 8% and exports at 3%. The company aims to increase its non-defence products' contribution to ~20% in the future. As regards the Kavach railway project, BEL is still in the R&D and prototype phase and it expects to proceed with larger tenders by mid-2025F, based on getting approval.
- **India-Russia radar deal:** The potential India-Russia deal for long-range radar systems, estimated at ~US\$4bn, is at a government-to-government (G2G) level. Although no direct role has been finalized for BEL yet, the company expects to participate as 60% of the contract is likely to be executed in India. The exact role and share of BEL will be clarified post negotiations between the governments concerned.

Figure 1: Results summary

(Rs m)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Total Revenue	57,561	41,367	39.1%	45,834	25.6%	1,45,393	1,16,409	24.9%
Net RM Costs	29,928	21,370	40.0%	21,416	39.7%	74,251	61,665	20.4%
Personnel Costs	6,653	6,196	7.4%	6,500	2.4%	19,761	18,367	7.6%
Other Expenses	4,447	3,307	34.5%	4,032	10.3%	11,586	9,194	26.0%
Total Costs	41,028	30,873	32.9%	31,949	28.4%	1,05,597	89,226	18.3%
EBIDTA	16,533	10,494	57.5%	13,885	19.1%	39,796	27,182	46.4%
Less: Depreciation	1,029	998	3.1%	1,032	-0.2%	3,058	3,015	1.4%
EBIT	15,504	9,496	63.3%	12,854	20.6%	36,738	24,167	52.0%
Interest Paid	13	5	156.9%	13	-0.8%	38	31	23.3%
Other Income	2,051	2,232	-8.1%	1,668	22.9%	5,734	5,353	7.1%
PBT	17,542	11,723	49.6%	14,509	20.9%	42,434	29,490	43.9%
Tax	4,381	2,790	57.0%	3,596	21.8%	10,589	7,125	48.6%
PAT	13,161	8,933	47.3%	10,913	20.6%	31,845	22,365	42.4%
Adj. PAT	13,161	8,933	47.3%	10,913	20.6%	31,845	22,365	42.4%
Adj. EPS	1.8	1.22	47.3%	1.49	20.6%	4.4	3.1	42.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

Margins	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Gross Margin	48.0%	48.3%	-33bp	53.3%	-527bp	48.9%	47.0%	190bp
EBITDA Margin	28.7%	25.4%	335bp	30.3%	-157bp	27.4%	23.4%	402bp
EBIT Margin	26.9%	23.0%	398bp	28.0%	-111bp	25.3%	20.8%	451bp
PAT Margin	22.9%	21.6%	127bp	23.8%	-95bp	21.9%	19.2%	269bp
Cost Analysis:								
RM Expenses	52.0%	51.7%	33bp	46.7%	527bp	51.1%	53.0%	-190bp
Personnel Costs	11.6%	15.0%	-342bp	14.2%	-262bp	13.6%	15.8%	-219bp
Other Expenses	7.7%	8.0%	-27bp	8.8%	-107bp	8.0%	7.9%	7bp
Tax	25.0%	23.8%	118bp	24.8%	19bp	25.0%	24.2%	79bp

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 3: Actuals versus estimates

Rs m			
vs. InCred estimates	3QFY25A	3QFY25F	Var (%)
Revenue	57,561	50,337	14.4%
EBITDA	16,533	12,230	35.2%
Margin (%)	28.7%	24.3%	443bp
PAT	13,161	9,913	32.8%
vs. consensus estimates	3QFY25A	3QFY25C	Var (%)
Revenue	57,561	50,348	14.3%
EBITDA	16,533	10,696	54.6%
Margin (%)	28.7%	21.2%	748bp
PAT	13,161	9,540	38.0%

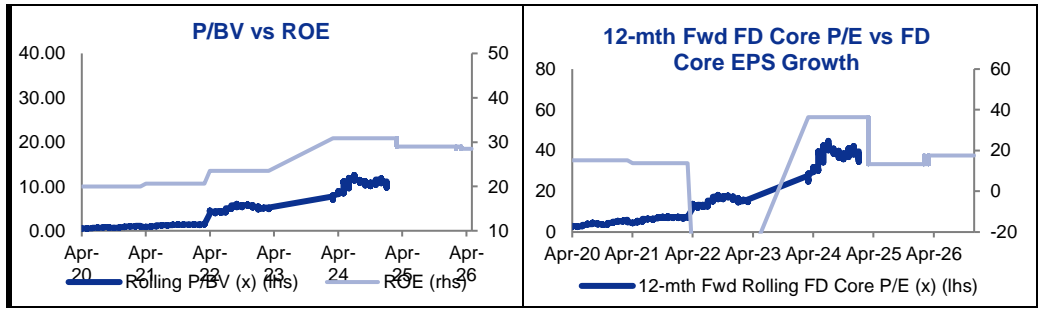
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 4: Earnings revision summary

(Rs m)	New estimates			Old Estimates			Change		
	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Revenue	2,52,000	2,99,430	3,41,370	2,37,812	2,77,904	NA	6.0%	7.7%	
EBITDA	69,802	78,233	91,549	56,433	66,932	NA	23.7%	16.9%	
PAT	54,833	62,126	73,011	43,245	50,361	NA	26.8%	23.4%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	153,138	176,462	201,694	252,000	299,430
Gross Profit	64,113	78,374	96,035	120,928	138,337
Operating EBITDA	33,092	40,475	49,982	69,802	78,233
Depreciation And Amortisation	(3,802)	(4,079)	(4,124)	(5,114)	(5,679)
Operating EBIT	29,291	36,397	45,857	64,688	72,554
Financial Income/(Expense)	(49)	(148)	(70)	(126)	(150)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,336	3,600	7,558	8,064	9,881
Profit Before Tax (pre-EI)	31,578	39,849	53,346	72,626	82,286
Exceptional Items					
Pre-tax Profit	31,578	39,849	53,346	72,626	82,286
Taxation	(8,089)	(9,782)	(13,146)	(17,793)	(20,160)
Exceptional Income - post-tax					
Profit After Tax	23,489	30,067	40,200	54,833	62,126
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,489	30,067	40,200	54,833	62,126
Recurring Net Profit	23,489	30,067	40,200	54,833	62,126
Fully Diluted Recurring Net Profit	23,489	30,067	40,200	54,833	62,126

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	33,092	40,475	49,982	69,802	78,233
Cash Flow from Invt. & Assoc.					
Change In Working Capital	15,498	(21,179)	(2,376)	(5,619)	(4,156)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	598	1,026	1,885	1,764	2,395
Other Operating Cashflow	448	380	11,119		
Net Interest (Paid)/Received					
Tax Paid	(8,024)	(9,150)	(14,130)	(17,793)	(20,160)
Cashflow From Operations	41,612	11,552	46,480	48,154	56,312
Capex	(5,461)	(5,621)	(6,423)	(7,643)	(8,184)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(43,145)	33,442	(52,466)	(6,535)	(2,460)
Cash Flow From Investing	(48,606)	27,820	(58,889)	(14,178)	(10,644)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,233)	(12,424)	(14,615)	(20,836)	(23,608)
Preferred Dividends					
Other Financing Cashflow	(539)	(697)	(128)	1,642	2,222
Cash Flow From Financing	(10,772)	(13,121)	(14,743)	(19,194)	(21,386)
Total Cash Generated	(17,766)	26,251	(27,152)	14,782	24,282
Free Cashflow To Equity	(6,994)	39,372	(12,408)	33,976	45,668
Free Cashflow To Firm	(6,994)	39,372	(12,408)	33,976	45,668

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	74,991	80,090	109,681	124,463	148,745
Total Debtors	61,034	70,220	73,622	95,277	113,209
Inventories	55,396	64,062	74,076	92,552	109,971
Total Other Current Assets	80,151	84,661	81,533	101,868	121,042
Total Current Assets	271,572	299,033	338,912	414,160	492,968
Fixed Assets	33,826	35,135	36,500	39,028	41,533
Total Investments	15,542	6,644	7,678	15,120	20,960
Intangible Assets					
Total Other Non-Current Assets	13,559	9,733	8,467	13,860	17,966
Total Non-current Assets	62,928	51,512	52,645	68,008	80,459
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	33,660	33,197	36,937	46,149	54,835
Other Current Liabilities	157,504	165,660	176,074	219,990	260,053
Total Current Liabilities	191,164	198,857	213,011	266,139	314,888
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	19,337	9,637	10,832	12,600	14,972
Total Non-current Liabilities	19,337	9,637	10,832	12,600	14,972
Total Provisions	4,156	6,232	6,890	8,608	10,229
Total Liabilities	214,657	214,725	230,733	287,348	340,088
Shareholders Equity	119,843	135,820	160,824	194,820	233,338
Minority Interests					
Total Equity	119,843	135,820	160,824	194,820	233,338

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	8.9%	15.2%	14.3%	24.9%	18.8%
Operating EBITDA Growth	4.0%	22.3%	23.5%	39.7%	12.1%
Operating EBITDA Margin	21.6%	22.9%	24.8%	27.7%	26.1%
Net Cash Per Share (Rs)	30.78	10.96	15.00	17.03	20.35
BVPS (Rs)	49.18	18.58	22.00	26.65	31.92
Gross Interest Cover	603.93	246.09	653.24	513.40	484.62
Effective Tax Rate	25.6%	24.5%	24.6%	24.5%	24.5%
Net Dividend Payout Ratio	43.6%	41.3%	36.4%	38.0%	38.0%
Accounts Receivables Days	150.81	135.75	130.15	122.32	127.07
Inventory Days	214.32	222.26	238.60	232.01	229.43
Accounts Payables Days	(136.58)	(124.39)	(121.14)	(115.69)	(114.40)
ROIC (%)	55.5%	56.0%	74.9%	84.6%	81.7%
ROCE (%)	25.7%	28.5%	30.9%	36.4%	33.9%
Return On Average Assets	7.5%	8.8%	10.9%	12.6%	11.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.