

## Growth visibility remains strong...

**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 revenue, EBITDA and PAT have grown at 11.1%, 14.4% & 18.5% CAGR respectively over the period FY20-23. In FY23, defence segment contributed ~87% to total sales followed by non-defence segment at ~11% and balance ~2% by exports
- Order backlog is estimated to be at ~₹ 73500 crore (3.8x TTM revenue)

### Investment Rationale:

- **Growing necessity of modernised indigenous defence platforms offers a huge opportunity in defence electronics:** 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 40-42% by FY27 (vs. current share of 36-37%). 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 provides strong visibility:** Company's order inflow stands at ₹ 32716 crore during YTFDY24 (as against inflows of ₹ 19000-20000 crore in FY22 & FY23) led by defence electronics segment. Current order backlog is estimated at ~Rs 73500 crore (3.8x TTM 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 with robust pipeline provides strong earnings visibility. Moreover, company's strategy to diversify into non-defence, focus on increasing exports & services share would aid long term growth and help de-risk its business. We expect revenue & PAT to grow at a CAGR of 14.3% & 17.6%, respectively over FY23-26E aided by sustained margins at ~23%. Balance sheet remains strong with healthy returns ratios
- Valuation at 28x P/E on FY26E basis looks attractive considering the healthy growth ahead, strong sectoral tailwinds and company's consistency in terms of orders inflows and execution. We recommend BUY on BEL with target price of ₹ 240 per share (based on 36x FY26E EPS)



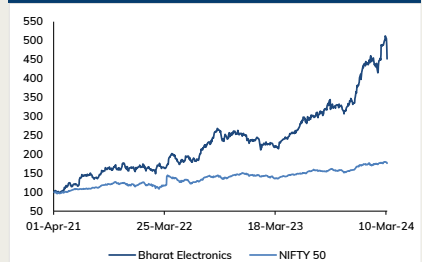
### Particulars

Particulars (Rs Crore)	Amount
Market Capitalization	1,35,962
Total Debt (FY23)	0.0
Cash and Inv (FY23)	7,926
EV (FY23)	1,28,036
52 week H/L	217 / 90
Equity capital	731.0
Face value (Rs)	1.0

### Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	51.1	51.1	51.1	51.1
FII	16.4	17.4	17.2	17.8
DII	25.5	24.8	24.2	23.4
Others	6.9	6.7	7.5	7.7

### Price Chart



### Key risks

- Dependent on govt contracts
- High working capital requirement
- Availability of key raw materials

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### Key Financial Summary

(Year-End March)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-26E)
Revenues	12,921	14,064	15,368	17,734	11.1	19,952	23,044	26,501	14.3
EBITDA	2,730	3,181	3,341	4,086	14.4	4,582	5,337	6,138	14.5
EBITDA margin (%)	21.1	22.6	21.7	23.0		23.0	23.2	23.2	
Net Profit	1,794	2,065	2,400	2,986	18.5	3,611	4,208	4,852	17.6
EPS (Rs)	2.5	2.8	3.3	4.1		4.9	5.8	6.6	
P/E (x)	75.8	65.8	56.6	45.5		37.7	32.3	28.0	
EV/EBITDA (x)	49.2	41.1	38.4	31.3		27.7	23.5	20.1	
RoCE (%)	24.6	26.6	25.8	28.4		29.8	30.3	30.6	
RoE (%)	17.8	18.7	19.5	21.5		22.7	23.0	23.2	

## Financial summary

Exhibit 1: Profit and loss statement					₹ crore
Year-End March	FY23	FY24E	FY25E	FY26E	
Net Sales	17,404	19,580	22,615	26,007	
Other operating income	330	372	430	494	
Revenue	17,734	19,952	23,044	26,501	
% Growth	15.4	12.5	15.5	15.0	
Other income	280.8	615.0	707.3	813.3	
Total Revenue	17,734	19,952	23,044	26,501	
% Growth	15.4	12.5	15.5	15.0	
Total Raw Material Costs	9,828	11,356	13,116	15,084	
Employee Expenses	2,317	2,506	2,827	3,199	
other expenses	1,504	1,508	1,764	2,081	
Total Operating Expenditure	13,649	15,370	17,707	20,363	
Operating Profit (EBITDA)	4,086	4,582	5,337	6,138	
% Growth	22.3	12.1	16.5	15.0	
Interest	15	5	5	5	
PBDT	4,352	5,192	6,039	6,946	
Depreciation	429	439	495	543	
PBT before Exceptional Items	3,923	4,753	5,544	6,403	
Total Tax	983	1,188	1,386	1,601	
PAT before MI	2,940	3,565	4,158	4,802	
PAT	2,986	3,611	4,208	4,852	
% Growth	24.4	20.9	16.5	15.3	
EPS	4.1	4.9	5.8	6.6	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore
Year-End March	FY23	FY24E	FY25E	FY26E	
Equity Capital	731.0	731.0	731.0	731.0	
Reserve and Surplus	13,128	15,209	17,574	20,217	
Total Shareholders funds	13,859	15,940	18,305	20,948	
Other Non Current Liabilities	64.5	64.5	64.5	64.5	
Total Debt	-	-	-	-	
Total Liabilities	14,905	16,986	19,351	21,994	
Gross Block	5,163	5,801	6,501	7,100	
Acc. Depreciation	2,469	2,908	3,403	3,946	
Net Block	2,694	2,893	3,097	3,153	
Capital WIP	361	500	500	501	
Total Fixed Assets	3,818	4,155	4,360	4,416	
Non Current Assets	1,425	1,802	2,004	2,229	
Inventory	6,448	7,297	8,429	9,765	
Debtors	7,300	8,473	9,786	11,254	
Loans and Advances	1	2	2	2	
Other Current Assets	7,846	8,779	10,139	11,660	
Cash	7,926	9,137	10,761	12,675	
Total Current Assets	30,027	34,194	39,622	45,862	
Current Liabilities	3,660	4,373	5,051	5,808	
Provisions	845	845	845	845	
Total Current Liabilities	20,565	23,366	26,836	30,714	
Net Current Assets	9,462	10,828	12,787	15,148	
Total Assets	14,905	16,986	19,351	21,994	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
Year-End March	FY23	FY24E	FY25E	FY26E	
Profit after Tax	2,986	3,611	4,208	4,852	
Depreciation	429	439	495	543	
Interest	15	5	5	5	
Cash Flow before WC changes	3,430	4,054	4,708	5,400	
Changes in inventory	(856)	(849)	(1,131)	(1,337)	
Changes in debtors	(1,192)	(1,173)	(1,313)	(1,468)	
Changes in loans & Advances	-	(0)	(0)	(0)	
Changes in other current assets	(65)	(932)	(1,361)	(1,521)	
Net Increase in Current Assets	(2,372)	(2,955)	(3,805)	(4,326)	
Changes in creditors	291	713	678	758	
Changes in provisions	204	28	102	114	
Net Inc in Current Liabilities	984	2,800	3,470	3,879	
Net CF from Operating activities	2,043	3,900	4,373	4,953	
Changes in deferred tax assets	117	-	-	-	
(Purchase)/Sale of Fixed Assets	(529)	(700)	(700)	(600)	
Net CF from Investing activities	(200)	(1,077)	(901)	(825)	
Dividend and Dividend Tax	(1,316)	(1,535)	(1,827)	(2,193)	
Net CF from Financing Activities	(1,480)	(1,611)	(1,848)	(2,214)	
Net Cash flow	362	1,212	1,624	1,914	
Opening Cash/Cash Equivalent	7,564	7,926	9,137	10,761	
Closing Cash/ Cash Equivalent	7,926	9,137	10,761	12,675	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
EPS	4.1	4.9	5.8	6.6
Cash per Share	10.8	12.5	14.7	17.3
BV	19.0	21.8	25.0	28.7
Dividend per share	1.8	2.1	2.5	3.0
Dividend payout ratio	44%	43%	43%	45%
EBITDA Margin	23.0	23.0	23.2	23.2
PAT Margin	17.2	18.4	18.6	18.7
RoE	21.5	22.7	23.0	23.2
RoCE	28.4	29.8	30.3	30.6
RoIC	61.6	60.9	64.2	67.6
EV / EBITDA	31.3	27.7	23.5	20.1
P/E	45.5	37.7	32.3	28.0
EV / Net Sales	7.2	6.4	5.4	4.7
Sales / Equity	1.3	1.3	1.3	1.3
Market Cap / Sales	7.7	6.8	5.9	5.1
Price to Book Value	9.8	8.5	7.4	6.5
Asset turnover	1.3	1.3	1.3	1.3
Debtors Turnover Ratio	2.6	2.5	2.5	2.5
Creditors Turnover Ratio	5.0	5.0	4.9	4.9
Debt / Equity	-	-	-	-
Current Ratio	4.1	4.1	4.2	4.3
Quick Ratio	2.9	2.9	2.9	3.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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