

BONANZA WEALTH MANAGEMENT RESEARCH

28th March 2025

Bharat Electronics – BUY

CMP : Rs.300.0
Target Price : Rs.360.0
Upside : 20%+
Stop Loss : Rs.255.0 (Closing basis)

Investment Thesis

- Bharat Electronics Ltd. (BEL), the leading domestic supplier of defence electronics to the Indian armed forces, benefits significantly from its position as the largest domestic electronics manufacturer. Its product includes radar, missile systems, electronic warfare & avionics, anti-submarine warfare, electro-optics, homeland security, civilian products, etc.
- By the end of Q3FY25, BEL's orderbook stands at Rs.711bn (3.1x TTM revenue), which provides a healthy revenue growth visibility over the next 2-3 years. The total order inflow of BEL for FY25 till date was Rs.170.3bn, however, lower than management guidance of Rs.250bn for FY25. Orders pipeline for BEL remains robust in defence electronic systems (electronic warfare, radars, navigation systems, communication & control systems, avionics, etc. for various platforms) as well as non-defence and exports. Orders inflow in FY26E is likely to be even much higher than annual run-rate of Rs.250bn. Management has also maintained its guidance for 15% YoY revenue growth.
- BEL is expecting large contracts like Quick Reaction Surface-to-Air-Missile (QRSAM), Medium Range Surface-to-Air-Missile (MRSAM) in FY26E. Largest order for FY26E could be for QRSAM worth Rs.250-300bn followed by MRSAM along with other electronic modules requirement in the next generation corvettes worth Rs.140-150bn. With expectation of such large order inflows and several other orders worth Rs.100-150bn, the management is positive for an order inflow of Rs.250-500bn for the FY26E. BEL is in talks with Mazagon Dock Shipbuilders for supplying components in their P-75 and P75(l) projects, expected to be finalized by Q1FY26. BEL is designing modules for its MRSAM offerings as it is expecting order worth ~Rs.20-30bn P.A. for the next 4-5 years. Its significant future projects include Ashwini Radar, Electronic Warfare for MI-17, HimShakti Phase 4, and QRSAM and these are in the stage of contract finalization.

Financials

- BEL's revenue / PAT grew by CAGR of 10.8% / 16.1%, respectively in FY19-24 led by robust orderbook and government's emphasis on defence indigenization.

Consol. (Rs. Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,53,682	1,77,344	2,02,682	2,43,219	2,86,998
EBITDA	33,221	39,969	48,708	65,269	78,976
EBITDA Margin (%)	21.6%	22.5%	24.0%	26.8%	27.5%
PAT	23,989	29,844	39,845	52,596	62,694
EPS (Rs.)	3.3	4.1	5.5	7.2	8.6
P/E (x)	91.4	73.5	55.0	41.7	35.0
RoE (%)	18.8%	21.5%	24.4%	29.4%	32.0%

Stock Data

Market Cap (Rs. Mn)	21,97,240
Market Cap (\$ Mn)	25,728.80
Shares O/S (in Mn)	7,310
Avg. Volume (3 month)	2,24,10,250
52-Week Range (Rs.)	340.00 / 204.00

Shareholding Pattern

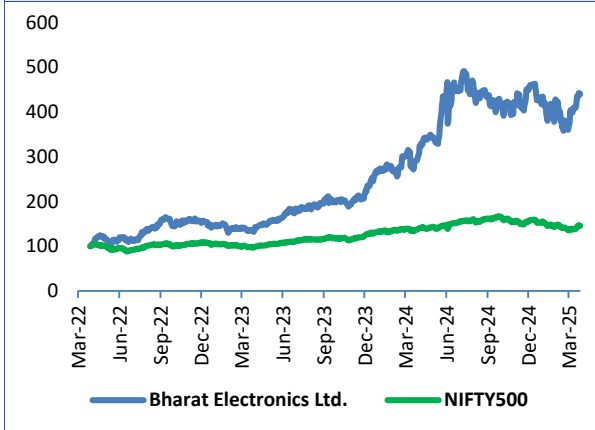
Promoters	51.14%
FII's	17.34%
Institutions	20.94%
Others (incl. body corporate)	10.58%

Key Ratios

Div Yield	0.70%
TTM PE	43.9x
ROE	26.3%
TTM EPS (Rs.)	6.83/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	19.1%	2.5%	50.7%
NIFTY 500	5.4%	-12.6%	6.6%



- BEL reported Q3FY25 revenue at Rs.57.7bn, up 39.3% YoY and up 25.3% QoQ to, led by robust orders execution.
- BEL's EBITDA up 55.7% YoY and 19.3% QoQ to Rs.16.7bn, EBITDA margin stood at 28.9%, improved 304bps YoY due to cost control measures.
- Management has upgraded its guidance, forecasting strong revenue growth exceeding 16%, supported by expanding gross margins of 42-44% and a healthy EBITDA range of 23-25%.

Key Business Highlights

- BEL manufactures defence products in various segments, such as defence communications, electronic warfare systems, avionics, electro optics, radio detection and weapon systems. It also has a non-defence business (civilian radars, e-governance systems, telecom broadcast systems, solar products and electronic voting machines). BEL is experienced in executing large system-integration projects and has an in-house R&D division.
- BEL also increasing its non-defence share in the overall business, focusing on areas which include solutions for the Civil Aviation sector, Anti Drone Systems, Satellite Assembly & Integration, Solar, Railway & Metro solutions, Network & Cyber Security solutions, Energy Storage products for Electric Vehicles, Homeland Security & Smart Cities, Medical Electronics, etc.

Valuation

- BEL's current orderbook consists of 91% Defence order while non-defence and exports segments contribute ~9% and ~3% to the orderbook, respectively. The order book now comprises of six major orders consisting of Long-Range Surface to Air Missile (LRSAM), Akash Prime, BMP-2 Upgrade, Himshakti, Rudra radar, Electronic-fuses which are collectively around ~Rs.200-250bn (each order being estimated at ~Rs 25-45bn respectively).
- Defence electronics market in India is in a growing path led by government's efforts to boost defence production in India and reduce dependence on imports. Defence electronics is expected to contribution has increased to 35-36% and is expected to increase further due to increasing required modernisation in platforms. BEL is favourably positioned due to its strong capabilities in designing, developing & manufacturing a wide range of strategic electronic products/systems 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 FY24-27E with the share of defence electronics (in total defence production) increasing to 40-42% by FY27E.
- With strong orderbook of Rs.711bn (3.1x TTM revenue), expecting large contracts like QRSAM, MRSAM in FY26E, in talks with Mazagon Dock Shipbuilders for supplying components, defence electronics systems/sub-systems to grow at 13-14% CAGR over FY24-27E, we are assigning BUY rating to Bharat Electronics Ltd (BEL) and value at 42.0x FY26E EPS of Rs.8.60 to arrive at target price of Rs.360.00, an upside of ~20.0%+.

Risk & Concern

- BEL is highly dependent on MoD, Indian armed forces and DRDO for its contracts for defence electronic systems, sub-systems. Any decline or delay in order may affect BEL adversely.
- BEL gets significant advances from customers at the beginning of a project, any delay or lower disbursement may impact execution of the project.

Graphs & Charts

Figure 1: Net Sales Trend

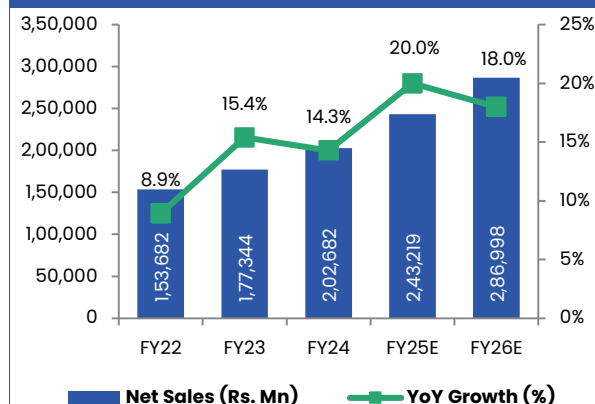


Figure 2: EBITDA & EBITDA Margin Trend

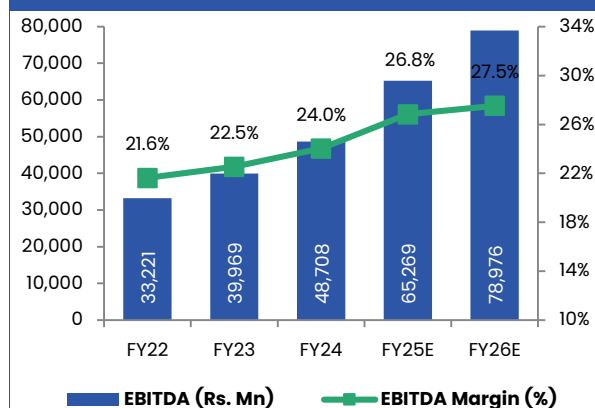


Figure 3: PAT Trend

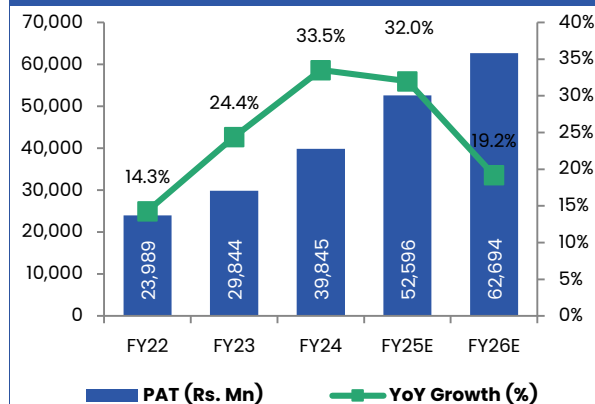
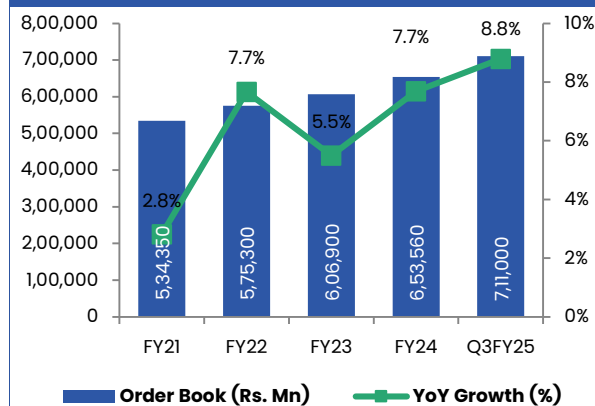


Figure 4: Orderbook Trend



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