

28th September 2023

Bharat Electronics Ltd. – BUY

CMP : Rs. 135.0
Target Price : Rs. 166.0
Upside : 23 %+
Stop Loss : Rs. 116.0 (Closing basis)

Investment Thesis

- Bharat Electronics Ltd. (BEL), a leading aerospace and defence electronics company, 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 FY22-27E with the share of defence electronics (in total defence production) increasing to 40-42% by FY27E against current share of 36-37%. Improving technology is demanding increased usage of electronics, expanding the share of defence electronics in total defence production.
- BEL has already received orders worth Rs.14,384Cr in first six months of FY24 (vs. the full year guidance of ~Rs.20,000Cr) which includes major contract like two regiments of improved Akash Weapon System (AWS) from Bharat Dynamics worth Rs.3,914Cr. Other contracts received by BEL in YTD FY24 include Electronic Warfare (EW) systems, radar systems, communication systems and other electronic sub-systems for aero, naval and ground platforms. Order backlog is at Rs.65,356Cr at the end of June 2023, post some of these contracts. We believe, BEL will be able to meet its total order inflow guidance of ~Rs.20,000Cr in FY24E considering the order pipeline in defence & non-defence segments. Large scale projects like Quick reaction surface to air missile (QRSAM) and Medium Range surface to air missile (MRSAM) are expected to be placed in FY24-25E, provides healthy orders pipeline.
- BEL is growing its focus in the civilian/non-defence and exports segments, which contribute ~13% to sales at present. It provides strong prospects for BEL in terms of tapping this opportunity, aiding long-term growth and de-risk its business model. BEL is expanding its export business through entering new export markets. In a bid to develop new markets in the Indian Ocean Region (IOR) and friendly foreign countries (FFCs), BEL has operationalized overseas offices at New York (USA), Singapore, Oman, Vietnam, Sri Lanka and Myanmar.
- BEL has a capex plan of Rs.700-800Cr for FY24E as against Rs.500-600Cr during past 2-3 years and will maintain similar range of capex going forward. Capex will be utilized toward multiple plants, including Nimmaluru (IR seekers, night vision and thermal imaging system), Palasamudram (systems integration), Bengaluru (D29 EW suite), Nagpur (electronics fuses & LGRB), Ibrahimpatnam (EW systems) and Hyderabad (super components, enhancement of capacity).

Financials

- BEL's revenue grew by CAGR of 11.3% during FY18-23. We believe, revenue growth in the next two years is expected to be substantially better than the last five years growth, considering the better execution of the existing backlog and expected orders primarily led by increasing indigenisation of subcomponents.

Consol. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,41,087	1,53,682	1,77,344	2,03,946	2,34,538
EBITDA	31,851	33,221	39,969	46,363	54,245
EBITDA Margin (%)	22.6%	21.6%	22.5%	22.7%	23.1%
PAT	20,989	23,989	29,844	34,619	40,505
EPS (Rs.)	2.9	3.3	4.1	4.7	5.5
P/E (x)	47.0	41.1	33.1	28.5	24.4
RoE (%)	18.2%	18.8%	21.5%	22.8%	24.4%

Stock Data

Market Cap (Rs. Mn)	9,92,660
Market Cap (\$ Mn)	11,934.0
Shares O/S (in Mn)	7309.8
Avg. Volume (3 month)	17,797,000
52-Week Range (Rs.)	147.15 / 87.00

Shareholding Pattern

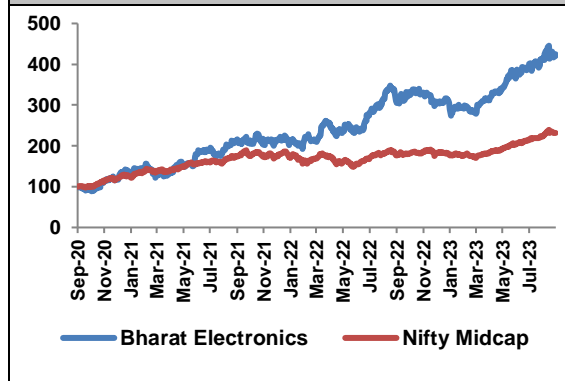
Promoters	51.14%
FII's	17.35%
Institutions	24.84%
Others (incl. body corporate)	6.67%

Key Ratios

Div Yield	1.3%
TTM PE	31.4x
ROE	14.8%
TTM EPS (Rs.)	4.3/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	1.3	13.1	37.8
NIFTY MIDCAP	4.5	13.8	32.5



- BEL reported strong quarterly performance with revenue growth of 12.8% YoY to Rs.34,654mn in Q1FY24 led by the ongoing execution of LRSAM orders, execution of EVM orders worth Rs.8-9bn resulted in non-defence revenue increasing to 25% of total revenue.
- BEL's EBITDA grew by 29.4% YoY to Rs.6,725mn in Q1FY24. As a result, EBITDA margins expanded by 243bps YoY to 18.9%, mainly due to gross margin expansion (43.5% vs 41.9% in Q1FY23).
- BEL's new order inflow in Q1FY24 was at ~Rs81bn, taking total order book to Rs.65,356mn, up 18.1% YoY (3.7x TTM revenue). Off the total order book ~6% comes from non- defence segment, with execution time frame of ~1-2 years.

Key Business Highlights

- Bharat Electronics Ltd. (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 aims to increase 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, Artificial Intelligence, etc.
- BEL's manufacturing units are located at Bengaluru, Nimmaluru, Ghaziabad, Pune, Nagpur, Machilipatnam, Panchkula, Chennai, Kotdwar, Hyderabad, Navi Mumbai, Palasamudram. It also has one 'product development & innovation centre' at Bengaluru with two central research laboratories at Bengaluru and Ghaziabad.

Valuation

BEL is expected to be the key beneficiary of the opportunity led by the indigenisation drive and the Make in India programme considering its capital-intensive infrastructure with high technical expertise or strong capabilities in designing, developing, manufacturing and supplying a wide range of strategic electronic products/systems including those involving emerging technologies. BEL's strategy to diversify into non-defence, focus on increasing exports & services will aid long term growth and help de-risk its business.

With With a leading aerospace and defence electronics company, strong total order book to Rs.65,356mn (3.7x TTM revenue), new order inflow target of Rs.20,000Cr for FY24 out of which order worth Rs.14,384Cr is already received in first six months of FY24, growing focus in the civilian/non-defence and exports segments, capex plan of Rs.700-800Cr for FY24E and government emphasis on indigenisation drive and the Make in India programme in defence, we are assigning BUY rating to Bharat Electronics Ltd. (BEL) and value at 30.0x FY25E EPS of Rs.5.50 to arrive at target price of Rs.166.00, an upside of ~23.0%+.

Risk & Concern

- BEL is highly dependent on Ministry of Defence, Indian armed forces and DRDO for its contracts for defence electronic systems, sub-systems. Any decline, delay or reprioritisation of funding under the Indian defence budget may affect BEL adversely.
- BEL gets significant advances from customers at the beginning of a project, any delay in advances or lower disbursement may impact execution of the project.
- BEL is dependent on foreign suppliers for sub-systems to be fitted on defence platforms across aerospace, missiles, naval warships, underwater weapons like torpedoes and ground based defence platforms. Any change in preference of these suppliers or any disturbance in the global supply chain may impact the company's execution and, thus, earnings and cash flows.

Graphs & Charts

Figure 1: Net Sales Trend

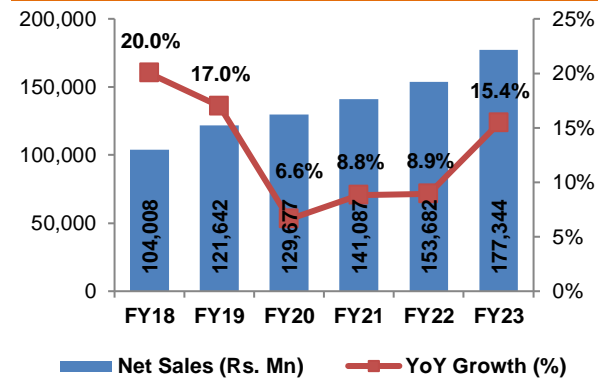


Figure 2: EBITDA & EBITDA Margin Trend

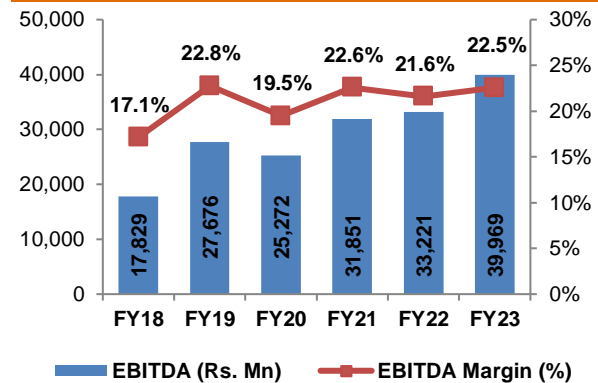


Figure 3: PAT Trend

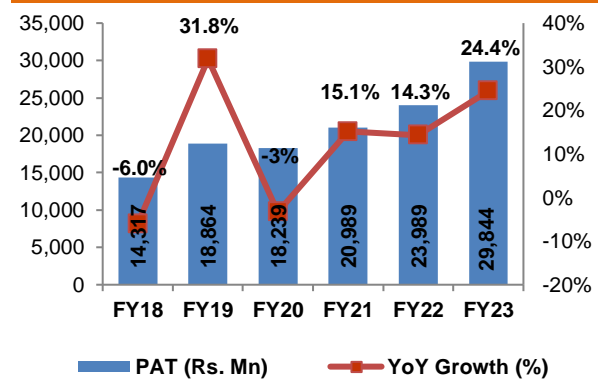


Figure 4: Order Book Position Trend



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