

# Bharat Electronics

## 4th Aug '24 - Quick review of Q1FY25 earnings and Fair Valuation.

### Quick Review of Bharat Electronics' Q1FY25 earnings.

- BEL reported a 20% YoY growth in revenue. Revenue stood at ₹4,244 crore.
- EBITDA margins expanded 300 bps YoY to 22%.
- Net Profit rose 47% YoY to ₹791 crore.
- EPS reported was ₹1.08 up 46% YoY.

BEL's latest quarterly earnings report is proof that the company is still growing very nicely.

### Analysts and Brokerage View

- Jefferies
  - a. Maintained a Buy call and raised the target to ₹370 from ₹305.
  - b. It believes the ₹76,700 crore order book provides FY24-FY27e revenue visibility and maintains a 15% YoY revenue growth guidance.
- Nomura
  - a. Maintained a Buy call and raised the target to ₹363 from ₹350.
- Macquarie
  - a. Gave an Outperform rating for the target of ₹350.
- UBS
  - a. Rated Neutral from Buy while raising the target price to ₹340 from ₹333.
  - b. While UBS remains optimistic about BEL's earnings and order book growth, it believes the stock's medium term growth potential is already priced in.
  - c. It has valued BEL for 40x PE multiple on 12 month forward earnings as of July 2025.
  - d. UBS highlighted that BEL has experienced a significant stock rally over the past 12 months, largely driven by a 70 percent increase in order intake in FY24 compared to management guidance. Earnings upgrades

during this period were 13 percent, reflecting a strong valuation re-rating. "BEL factors in a healthy ₹30,000-34,000 crore/year new order run rate, 19% top-line/EBITDA CAGRs (FY24-27E), and a 12-month forward PE of 48x, leaving little room for a positive surprise," UBS explained.

- e. However, UBS emphasized the importance of timely closure of large ticket orders to sustain a higher 19% revenue CAGR, compared to 11% in the past 5 years and 12% in the past 10 years.
- f. Management's guidance of a 15% revenue and a ₹25,000 crore order run rate seems achievable but UBD sees limited upside beyond this and seek greater clarity on timelines for larger platforms such as the Quick Reaction Surface to Air Missile (QRSAM) system and future Akash orders.
- g. UBS' downgrade to Neutral reflects valuation concerns and the sustainability of its growth potential. Investors should watch timely execution of orders and management's guidance on future projects to assess BEL's continued growth trajectory.
- h. UBL believes HAL presents better new order growth potential than BEL in the next 12-24 months.

### Fair Valuation - Industry Average Based Method

Important data for comparing relevant major players in the 'niche' and 'specialized' electronic equipment manufacturing for the aerospace and defense industry in India.

All facts and figures as on 4th August 2024

Name	PE	PEG	EV (in ₹ crore)	EV / EBITDA	ROE (in %)
BEL	52.27	1.5	2,10,455	34.75	26.4
Data Patterns	93.85	1.07	17,316	62.36	14.26
Apollo Micro	113.32	52.22	3,761	43.48	7.39

Systems					
MTAR Technologies	101.91	12.54	5,873	49.77	8.67
Paras Defence and Space	162.36	16.95	4,930	83.18	7.0

If you look at the table above, it is clear that we cannot compare BEL with the likes of Data Patterns, Apollo Micro Systems and MTAR Technologies even after all these companies specialize in making electronic equipment and more for the aerospace and defense industry in India.

The size of BEL and their size of operations is just overwhelming for all the other companies combined. This is why doing an 'Absolute - Historical Valuation Based Method' is better for BEL.

And if you ask me for a recommendation to invest in the private players of this sector, I'll straight away say no. At this time, the only stock that seems better placed is BEL. However, better placed doesn't mean value is attractive.

### **Fair Valuation - Absolute - Historical Valuation Based Method**

Metrics to be used for this valuation based method.

All facts and figures as on 4th August 2024

Stock	PE Ratio			PEG Ratio	EV	EV / EBITDA	
	Current PE	1 Year Median PE	3 Year Median PE			Current	3 Year Median EV Multiple
Bharat Electronics - BEL	52.27	40	27.45	1.5	₹2,10,455 crore	34.75	17.7

Stock	Compounded Revenue Growth Rate		Operating Profit Margin		Compounded Net Profit Growth Rate		Net Profit Margin		ROE	
	TTM	3 Year	Current	3 Years ago	TTM	3 Year	Current	3 Years ago	Current	3 Years ago
Bharat Electronics - BEL	16%	13%	25%	22%	34%	24%	20%	15.00%	26%	23%

The two images above show the performance of the company and the important valuation ratios of the BEL stock.

The consistent increase in revenue, the margin expansion and the recent net profit growth rate is expected to continue through FY26.

The average revenue estimate for FY26 stands at ₹27,600 crore, 36% higher than FY24. And the average EPS estimate for FY26 stands at ₹7.47 per share, 37% higher than FY24.

These estimates largely factor in the current order book status of BEL. However, these estimates are subject to changes towards either side. Factors like government spending on defense and the possibility of opening up the sector to private players are some of the most important things to watch out for in the coming years.

Now coming back to the images.

See, right now everything is ripe for the defense sector. The government spending is at an all time high. The companies have reported better operating efficiency, the orders keep coming and what not. The only concern is execution. If the defense companies fail to deliver the orders on time by whatever reason, the 'premium' factor of these stocks would come down significantly because if there's no execution, there's no earnings and if there's no earnings, investors will say goodbye to literally any stock they used to love.

BEL right now trades at a 90% premium over its 3 year median PE ratio and a 96% premium over its 3 year median EV multiple.

Apart from the PE and EV / EBITDA multiples, the PEG ratio (price to earnings growth ratio) stands at 1.5

Ideally it is said that a PEG ratio of less than 1 is good but here, for the defense sector is growing exponentially and the stock prices factor in much of the expected positive events beforehand, the PEG ratio of 1.5 is justified well. In fact I believe that here the PEG ratio of 1.5 is attractive provided if the company continues to grow this way.

Now I'll be taking the example from my valuation report on HAL. I valued the HAL stock at 40 PE ratio and said that ₹4,550 per share is the fair value. BEL is a different company from HAL but they both operate closely in the same sector. In fact many big international brokerages use similar valuation multiples and ratios for both stocks.

Mind you, this is not the target price for BEL. This is just an insight driven attempt to get to the fair value of the BEL stock.

I'd be happy to give a 50% PE premium to the BEL stock over its 3 year median PE ratio. This is a conservative premium because PE multiple 3 years back doesn't factor in the recent major positive developments in the company.

At 50% premium, the PE ratio turns out to be 41.15, very similar to that of HAL (from my report). Compute it with the TTM EPS of BEL stock (₹5.8 per share) and you'll get a price of ₹238.67 per share.

Remember this is a conservative estimate. The current trends and factors are such that if the company stays on this growth trajectory, it could send the fair valuation and the market price even higher.

### **Fair Valuation - Technical Based Method**

If you see the chart image below, you'll notice the different color lines. These are price levels which act as support or resistance zones. This is the Fibonacci Retracement tool. The three centerlines i.e. 0.382, 0.5 and 0.618 are the most important levels.

Moreover, the BEL stock seems to form a 'Head and Shoulder' pattern recently. This is a bearish pattern. You can read more about this pattern by doing a normal google search.

I think the BEL stock is slightly bearish for the short term. But it continues to be well placed for the medium and long term. The primary trend is still intact.

Now talking about a particular price level. Remember ₹238.67 per share price? It is around 20% down from the CMP.

I believe it's highly unlikely for us to see the BEL stock back at ₹238.67 per share levels but this price level just provides us with some fair insights. Also keep in mind, it's a conservative estimate.

Normally hot stocks which give huge rallies and then get supported by better than expected earnings correct not more than 0.5 Fibonacci levels. This is my own observation. It may not align with your perspective but it's worth having a look at. I feel anything that provides a different view or gives an addition to your existing perspective when it comes to stock valuation is important.



All that noted, I'd conclude that the BEL stock is not very overpriced, is pretty better valued than its peers, but presents little upside potential due to a higher valuation. I feel the downside risk from here is limited to ₹250 per share (obviously not a guarantee) which can be easily offset with an SIP.

Overall, the BEL stock at a CMP (current market price) of ₹303 per share is an okay-ish level for long term investors to start an SIP.

I hope you found this research report interesting and enjoyed reading and understanding it. Kindly give your feedback on this report using the Contact Us form on my website [guruspakes.com/markets](http://guruspakes.com/markets)

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