



Prime Stock

Short Term Fundamental Pick

Bharat Electronics Ltd



TODAY'S PRIME STOCK (SHORT-TERM INVESTMENT)**Bharat Electronics Ltd**

BSE CODE: 500049

NSE CODE: BEL

Sector: Aerospace & Defence

Industry: Electronic components

CMP (Rs): 302 | Buy Range: 295-302 | Target Price: 350 | Potential Upside: 15%**Duration of Recommendation: 4-6 Months**

Bharat Electronics Ltd (BEL) primarily manufactures and supplies electronic equipment and systems to the defense sector, including advanced systems like radars, fire control systems, and electronic warfare systems. The company has expanded into non-defense areas, developing solutions for sectors like homeland security, smart city infrastructure, cyber security, and medical electronics.

INVESTMENT RATIONALE

Robust Order Book Growth: With a strong order book of Rs. 76,705 crores as of July 2024, BEL is poised for sustained revenue growth. Management targets significant new orders totaling Rs. 25,000 crores in FY25, ensuring a steady revenue pipeline over the next few year.

Robust Financial Targets and Margin Expansion: BEL aims to achieve a gross margin target of 42% and an EBITDA margin of 23-25% in FY25, supported by a favorable product mix and cost control measures. These targets reflect strong future profitability and efficient operations management.

Broadening Non-Defense Revenue Share: BEL's goal to increase its non-defense business to 30% of revenue reflects its strategy to tap into sectors like smart city solutions, homeland security, and cyber solutions, opening new growth channels less affected by defense spending cycle.

Consistent Capex for Future Growth: BEL's planned Rs. 800 crore capex for FY25, aimed at new manufacturing facilities and modernization, signals its commitment to scaling operations to meet increasing order demands, especially as it anticipates 15-17% revenue growth in FY25.

Steady Development of Strategic Business Units (SBUs): BEL's 29 SBUs, including newly established units in RF and IR Seekers, Arms and Ammunition, and Network and Cyber Security, allow for specialized product development. These units are expected to drive targeted revenue growth in high-demand areas within the defense sector.

Growing India's Defense Budget to give tailwind: As the government increases its defense budget, BEL is well-positioned to capture a significant share of new defense spending, with orders for advanced radars, electronic warfare, and communication systems expected to secure long-term growth.

Strong Financial Performance: Revenue/EBITDA/PAT have grown at a CAGR of 11%/12%/15% respectively over FY19-24 period. In Q2FY25, Revenues/EBITDA/PAT have grown by 15%/38%/39% to Rs 4605 cr/1400 cr/1084 cr respectively on year-on-year basis. EBITDA margin is up by 510 bps from 25% to 30%. On QoQ basis, Revenue/EBITDA/PAT have grown by 8.5%/47%/39%. Leverage position is also good with D/E is 0.00 and net debt Rs. 8316 crores. Company's ROE & ROCE are 26%/34% respectively.

Attractive Valuations: Stock is currently trading at a P/E multiple of 37x and 33x its FY26/FY27 estimated EPS. Valuation is attractive especially in light of the government's increasing defense budget and the ongoing indigenization initiatives aimed at boosting domestic defense manufacturing. BEL's strong order book and strategic expansion into high-growth sectors further enhance its growth prospects, making it a compelling investment opportunity in the defense sector.

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