# STOCK OF THE WEEK

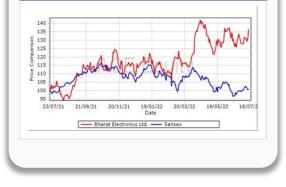
G GEPL CAPITAL



| Script Details                 |         |
|--------------------------------|---------|
| BSE Group                      | А       |
| BSE Code                       | 500049  |
| NSE Code                       | BEL     |
| Bloomberg Code                 | BHE IN  |
| Market Cap (INR Cr.)           | 59,806  |
| Free Float (%)                 | 48.9%   |
| 52wk Low/High                  | 260/162 |
| Beta (1yr Nifty 50)            | 0.86    |
| Face Value (INR)/ D. Yield (%) | 1/1.8   |
| Total paid Up Shares (Mn.)     | 2436.6  |

| Share Holding Pattern (%) |        |        |  |  |  |
|---------------------------|--------|--------|--|--|--|
| Promoters                 | Public | Others |  |  |  |
| 51.1%                     | 48.9%  | -      |  |  |  |

Share Price Relative Performance



## BHARAT ELECTRONICS LTD.

Sector

July 18, 2022

## Buy at CMP: Rs 245 | Target: Rs 288 (17%) | SL: Rs 224

Capital Goods

Bharat Electronics (BEL) is a leading aerospace and defence electronics company. It primarily manufactures advance electronics products. Its products list includes Multi-product, multi-technology- diverse product range including radar, missile systems, electronic warfare & avionics, anti-submarine warfare, electro-optics, homeland security, civilian products, etc. Civilian products from BEL include Electronic Voting Machines, Tablet PC, solar-powered traffic signal systems and Access Control Systems.

### Investment Rationale

- Huge Opened Up Opportunities Post 3rd Positive Indigenization List: Govt. recently released 3rd positive indigenization list (Capability to manufacture equipment within country) wherein 35% products belongs to electronics segment and BEL is leading established player in the space. The list is going to be effective from Dec-22 and order inflows are expected to start. The 3rd list comprises total orders value of Rs 2,10,000 Cr. Govt's focus to cut import and promoting indigenous equipment has opened up opportunities for BEL.
- Management Guidance Depicts Robust Execution with Margin Stability: Its management has guided for 15-17% revenue growth for next two years and EBITDA margins sustaining at 20-22% in medium term. It expects strong order intake of Rs. 15000-17000 Cr. per annum over 3-4 years. It is undergoing Rs. 1,800 cr. capex to boost its manufacturing, R&D and diversification needs. BEL's strong order backlog of Rs. 55,333 Cr (As of Q1FY23) provide earnings visibility of ~4 years.
- Company Aims to Expand operation in Non-Defence segments: Apart from its core Defence business, BEL also has operations into non-defence areas such as Homeland Security, Smart City, Energy Storage Products, Solar, Space Electronics, Network & Cyber Security, Railways & Metro Solutions, Weather Radars, VVPAT Etc. Company also has some civilian products like EVM, Tablet PC, Access control system etc. This segment contributing 21% of total top line and company is focusing on improving this share by introducing new products.
- Outlook and Valuations: In line with guidance, We estimate a 15% CAGR in Topline over FY22-25E, which implies a forward PE (x) of 17.1 for FY 25E. Company to benefit from rising indigenization share in defense. We value it with a earnings multiple of 20x to FY25 earnings estimate which results per share value of Rs 288. We recommend BUY on BEL at CMP of Rs. 245 with Target price of Rs. 288 (17%).

## • Financial Snapshot:

| Year  | Revenue | EBITDA | ΡΑΤ   | PE Ratio (x) | EV/EBITDA (x) |
|-------|---------|--------|-------|--------------|---------------|
| FY22  | 15,368  | 3,341  | 2,399 | 24.9         | 16.7          |
| FY23E | 17,673  | 3,888  | 2,651 | 22.6         | 15.4          |
| FY24E | 20,324  | 4,471  | 3,049 | 19.6         | 13.4          |
| FY25E | 23,373  | 5,142  | 3,506 | 17.1         | 11.6          |

Source: Company Data, Ace Equity, GEPL Research



# **TECHNICAL VIEW**

### **Observation**

- On Weekly chart of BEL, we can observe that prices are following a clear uptrend since June 2020 with the formation of higher top higher bottom in the prices.
- We witnessed some consolidation between a narrow range of 224 levels—191 level from August 2021 to March 2022.
- Prices gave a breakout from the above narrow range on April 2022 with high volumes, which indicated toward a start of trend in the direction of breakout.
- Post the breakout, around the level of 224 we saw change in polarity by the prices, where the prices took support from 20 Week EMA, which earlier have acted as a strong variable support for the prices.
- In the latest week, the prices gave a breakout of Symmetrical Triangle price pattern by taking support from crucial level of 224 which suggests a continuation in existing up trend.
- RSI plotted on weekly and daily time frame has sustained above 55 mark and moving upward, suggesting strong momentum in the prices.



TradingView

#### Inference & Expectations

- By looking at the overall price structure and the evidences supported by indicators, we can infer that prices can move in the direction of the breakout.
- Going ahead we expect the stock to move higher towards 280 levels followed by 300 levels.
- We recommend to place a stop loss at the level of 224, strictly on the closing basis.



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