

BHARAT ELECTRONICS LTD.

Sector

July 18, 2022

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

Capital Goods



Script Details

BSE Group	A
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 (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	PAT	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.



Name	Designation	Email	Contact
Mr. Vidnyan Sawant	Assistant Vice President (AVP), Technical Desk	vidnyan@geplcapital.com	+91 (22) 66182687
Mr. Harshad Gadekar	Research Analyst, Fundamental Desk	harshadgadekar@geplcapital.com	+91 (22) 66142685

We, Research Analyst of GEPL Capital, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We, also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Disclosure :-

This document has been prepared by Research Department of GEPL Capital Pvt. Ltd. (hereinafter referred to as GEPL) and this report is for personal information of the selected recipient/s and does not construe to be any investment, recommendation, prospectus, offering circular or legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and GEPL is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. GEPL makes no representation or warranty, express or implied, as to, and does not accept any responsibility or liability or obligation with respect to, the fairness, accuracy, completeness or correctness of any information or update information or opinions contained herein. All investments including Future and Options are involving risks and investor should exercise prudence in making their investment decisions. The report should not be regarded by the recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or GEPL as a result of using different assumptions and criteria. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. The information contained in this report has been obtained from sources that are considered to be reliable. However, GEPL has not independently verified the accuracy or completeness of the same. Neither GEPL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. GEPL and its affiliates and/or their officers, directors and employees may have similar position in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment. GEPL specifically prohibits the redistribution of this material in whole or in part without the written permission of GEPL and GEPL accepts no liability whatsoever for the actions of third parties in this regard. GEPL or its director or its research analysts or its associates or his relatives and/or its affiliates and/or employees do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Disclaimers in respect of jurisdiction:

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such Distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject GEPL its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently send or has reached any individual the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of GEPL.

Analyst Certification:

The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

GEPL Capital Private Limited is a SEBI registered Research Analyst entity bearing SEBI Reg. No. "INH000000081" under SEBI (Research Analysts)

Regulations, 2014.