

04 December 2023

India | Equity Research | Company Update

Bharat Dynamics

Defense

Pick-up in execution may lead to an upside in revenue

We recently (on Nov 24, '23) hosted Bharat Dynamics' (BDL) management for an interaction with investors. Takeaways from the meeting: i) Management maintained its FY24 revenue guidance of INR 32bn; ii) company had orderbook of INR 208bn with inflow of INR 16.6bn in H1FY24; iii) execution of current orders is on track with likely EBITDA margin of 20-23% in FY24E; iv) focus on exports continues, constituting 12.5% of the current orderbook. Taking cognisance of execution timelines, we expect BDL's revenue to rise by 2x to INR 64bn by FY27E, resulting in EBITDA CAGR of 36% (FY23-FY27E). We roll over our DCF model to FY32E, resulting in a revised target price of INR 1,500/share (earlier INR 1,325/share).

Revenue may grow 2x by FY27E

We expect BDL's revenue to rise to INR 64bn by FY27E led by strong execution. Key points: 1) Execution of INR 81bn of Akash 3rd and 4th regiment contracts from Q4FY25; 2) limited production clearance for Astra Mark-1 missiles received from DRDO; 3) recent supply orders of INR 16.7bn received for ATGM, LBRM, ULPGM and Akash may be executed; and 4) export orderbook of INR 26bn may translate into revenue. On orderbook accretion front, we expect order inflow of INR 200-250bn in the next 3-4 years from: a) MRSAM for Indian Navy; b) QRSAM and LRSAM; c) Akash NG weapon system; and d) Astra Mark-I missiles. In our view, both execution and margins may be aided by progressively higher indigenisation and the focus of the government to build rocket force. The impact of components sourced from Israel is largely limited to MRSAMs, while the upcoming opportunities such as AMOGHA ATGM, Dhurvastra, NAG and guided rockets are largely indigenised.

Expanding its footprint in exports and other areas

Among all DPSUs, BDL has the largest proportion of exports in its orderbook. Management expects revenue from exports at ~25% by FY27 and further orders for Akash SAMs, light weight torpedoes, SAAW, Konkur, CMDS and Astra missiles. Over the last couple of years, the company has expanded its portfolio to air-to-air missiles, rockets and cruise missiles. Besides, the management is working on new products such as rockets and drone launched missiles. Recently, the company launched a seeker facility to reduce external dependence.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	28,174	24,894	32,000	41,100
EBITDA	7,261	4,082	5,876	8,608
EBITDA Margin (%)	25.8	16.4	18.4	20.9
Net Profit	5,335	3,522	6,240	8,688
EPS (INR)	29.1	19.2	34.0	47.4
EPS % Chg YoY	107.0	(34.0)	77.2	39.2
P/E (x)	42.1	63.7	36.0	25.8
EV/EBITDA (x)	28.3	45.5	29.6	17.9
RoCE (%)	16.4	8.1	11.5	15.5
RoE (%)	19.2	11.8	18.9	23.1

Amit Dixit

amit.dixit@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Prithish Urumkar

Prithish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	224bn
Market Cap (USD)	2,693mn
Bloomberg Code	BDL IN
Reuters Code	BARA BO
52-week Range (INR)	1,278 / 787
Free Float (%)	25.0
ADTV-3M (mn) (USD)	9.4

Price Performance (%)	3m	6m	12m
Absolute	7.1	10.2	26.9
Relative to Sensex	2.8	7.9	7.3

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.0	0.0
EBITDA	(0.0)	(0.0)
EPS	26.6	22.5

Previous Reports

04-11-2023: [Q2FY24 results review](#)

08-08-2023: [Q1FY24 results review](#)

Update on key products/orders

- NAG missile: RFP likely soon, ordering to happen in FY25 (order value of INR 8bn) post which Helina order may flow.
- LRSAM is currently under user trials. QRSAM has already been approved by the user and the order is likely next year. Initial order value could be INR 30-40bn (opportunity size is ~INR 170-180bn); BDL and BEL can share 50:50 in order inflow.
- In case of MRSAM, BDL has already received order worth INR 2.5bn from the Indian Army, and may receive order from the Indian Navy in FY25E (order value of INR 30bn). Further, there have been no major supply problems till now from Israel for supply of MRSAM component.
- AMOGHA ATGM is currently under user trials.
- In case of guided rockets, the company may complete the trials shortly and this could be an opportunity of INR 10bn in next 2-3 years.

Outlook: Pick-up in execution is the key positive

While FY24 revenue is likely to be largely aided by the company recouping the shortfall of about INR 7bn in FY23, we expect the pick-up in execution due to Akash and Astra missiles to aid revenue growth post FY25E. We expect margin to remain robust at the upper end of the guidance of 20-23%, mainly due to the execution of platforms with higher indigenisation. While BDL's current orderbook may be executed over the next 3-4 years, we see further inflow from QRSAM, MRSAM and production orders for other platforms are currently under development. Overall, the focus of the government in augmenting rocket force along the border implies missile/rocket programmes may be expedited. On earnings front, we expect EBITDA CAGR of 36% through to FY27E and EPS to improve to a sustainable range of INR 70-75/share by FY27E. We roll over our DCF model to FY32, resulting in a revised target price of INR 1,500/share (earlier INR 1,325/share). Our revised TP implies P/E of 30x/23x FY25E/FY26E EPS. Maintain **BUY**.

Exhibit 1: Earnings revision

(INR mn)	FY24E			FY25E		
	New	Old	% Chg	New	Old	% Chg
Sales	32,000	32,000	0.0	41,100	41,100	0.0
EBITDA	5,876	5,876	(0.0)	8,608	8,608	(0.0)
PAT	6,240	4,930	26.6	8,688	7,091	22.5

Source: I-Sec research

Exhibit 2: DCF Valuation

(INR mn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Sales	28,174	24,894	32,000	41,100	55,250	64,500	62,650	60,000	60,000	63,000	63,000
EBITDA	7,261	4,082	5,876	8,608	11,891	13,918	14,175	13,447	13,594	14,508	14,629
Tax	2,100	1,296	2,102	2,927	3,970	4,613	4,536	4,157	3,919	4,418	4,587
PAT	5,335	3,522	6,240	8,688	11,783	13,694	13,465	12,338	11,633	13,112	13,617
NOPAT	5,161	2,786	3,774	5,681	7,921	9,304	9,639	9,290	9,675	10,091	10,042
Working Capital Change	(989)	19,213	7,520	12,948	6,311	8,148	8,440	(1,104)	6,510	2,022	11,857
Capex	(1,020)	(1,083)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
FCF	3,151	20,916	10,293	17,629	13,232	16,452	17,079	7,186	15,185	11,113	20,899
Terminal Value											4,43,518
Total FCF	3,151	20,916	10,293	17,629	13,232	16,452	17,079	7,186	15,185	11,113	4,64,417
Cost of Equity	11%										
WACC	10%										
Terminal Growth	5%										
NPV of FCFF (FY24E)	2,69,701										
Net Debt at FY23	(2,339)										
Net Equity value	2,72,040										
Value per share (INR)	1500										

Source: I-Sec research

Key Risks

- Delay in receipt of components and parts due to ongoing Israel – Palestine skirmish
- Execution delay in key platforms such as SAMs & Torpedoes
- Higher LD provisioning

Exhibit 3: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	74.9	74.9	74.9
Institutional investors	16.9	17.2	15.9
MFs and others	8.8	8.5	8.4
FIs/Banks	0.0	0.0	0.0
Insurance	5.2	5.2	4.3
FIIIs	2.9	3.5	3.2
Others	8.2	7.9	9.2

Source: Bloomberg

Exhibit 4: Price chart

Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	28,174	24,894	32,000	41,100
Operating Expenses	20,913	20,812	26,124	32,492
EBITDA	7,261	4,082	5,876	8,608
EBITDA Margin (%)	25.8	16.4	18.4	20.9
Depreciation & Amortization	904	773	778	828
EBIT	6,357	3,309	5,098	7,780
Interest expenditure	34	45	45	45
Other Non-operating Income	1,112	1,554	3,289	3,880
Recurring PBT	7,435	4,818	8,342	11,615
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,100	1,296	2,102	2,927
PAT	5,335	3,522	6,240	8,688
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	5,335	3,522	6,240	8,688
Net Income (Adjusted)	5,335	3,522	6,240	8,688

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	55,232	76,001	89,296	1,06,503
of which cash & cash eqv.	18,995	38,589	50,605	70,548
Total Current Liabilities & Provisions	26,257	18,360	27,158	37,370
Net Current Assets	28,975	57,642	62,138	69,133
Investments	-	-	-	-
Net Fixed Assets	7,052	7,011	7,233	7,405
ROU Assets	-	-	-	-
Capital Work-in-Progress	407	743	743	743
Total Intangible Assets	1,127	1,074	1,074	1,074
Other assets	1,248	1,330	1,330	1,330
Deferred Tax assets	571	564	564	564
Total Assets	39,382	68,364	73,083	80,250
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	9,076	36,250	36,250	36,250
Equity Share Capital	1,833	1,833	1,833	1,833
Reserves & Surplus	28,473	30,282	35,001	42,168
Total Net Worth	30,306	32,115	36,834	44,001
Minority Interest	-	-	-	-
Total Liabilities	39,382	68,365	73,083	80,250

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	4,616	7,983	2,977	6,158
% growth (YOY)	(42.6)	(42.2)	(57.2)	15.2
EBITDA	889	1,834	-327	1,340
Margin %	19.3	23.0	(11.0)	21.8
Other Income	365	372	1074	783
Extraordinaries	-	-	-	-
Adjusted Net Profit	837	1528	418	1471

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	5,290	21,601	14,583	22,509
Working Capital Changes	(989)	19,213	7,520	12,948
Capital Commitments	(1,020)	(1,083)	(1,000)	(1,000)
Free Cashflow	4,270	20,518	13,583	21,509
Other investing cashflow	(4,710)	(10,628)	-	-
Cashflow from Investing Activities	(5,730)	(11,710)	(1,000)	(1,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(20)	(31)	(45)	(45)
Inc (Dec) in Borrowings	(12)	(13)	-	-
Dividend paid	(1,453)	(1,669)	(1,521)	(1,521)
Others	-	-	-	-
Cash flow from Financing Activities	(1,485)	(1,714)	(1,566)	(1,566)
Chg. in Cash & Bank balance	(1,925)	8,176	12,016	19,943
Closing cash & balance	2,644	10,827	50,605	70,548

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	29.1	19.2	34.0	47.4
Adjusted EPS (Diluted)	29.1	19.2	34.0	47.4
Cash EPS	34.0	23.4	38.3	51.9
Dividend per share (DPS)	8.3	8.3	8.3	8.3
Book Value per share (BV)	165.4	175.2	201.0	240.1
Dividend Payout (%)	28.5	43.2	24.4	17.5
Growth (%)				
Net Sales	47.2	(11.6)	28.5	28.4
EBITDA	110.6	(43.8)	43.9	46.5
EPS (INR)	107.0	(34.0)	77.2	39.2
Valuation Ratios (x)				
P/E	42.1	63.7	36.0	25.8
P/CEPS	36.0	52.3	32.0	23.6
P/BV	7.4	7.0	6.1	5.1
EV / EBITDA	28.3	45.5	29.6	17.9
P / Sales	8.0	9.0	7.0	5.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	58.2	52.1	47.0	46.5
EBITDA Margins (%)	25.8	16.4	18.4	20.9
Effective Tax Rate (%)	28.2	26.9	25.2	25.2
Net Profit Margins (%)	18.9	14.1	19.5	21.1
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.6)	(1.2)	(1.4)	(1.6)
Net Debt / EBITDA (x)	(2.6)	(9.5)	(8.6)	(8.2)
Profitability Ratios				
RoCE (%)	16.4	8.1	11.5	15.5
RoE (%)	19.2	11.8	18.9	23.1
RoIC (%)	32.6	45.3	(128.0)	(37.3)
Fixed Asset Turnover (x)	2.3	1.9	2.4	2.8
Inventory Turnover Days	231.2	276.4	244.3	173.9
Receivables Days	42.5	28.0	30.5	34.1
Payables Days	-	-	-	-

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Amit Dixit, PGDM, B.Tech; Mohit Lohia, CA; Pritish Urumkar, MBATech (Finance); authors and the names subscribed to this report, 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. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
