

India

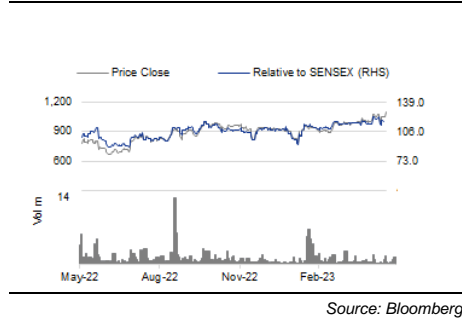
ADD (no change)

Consensus ratings*: Buy 4 Hold 0 Sell 1

Current price:	Rs1,102
Target price: ▲	Rs1,300
Previous target:	Rs575
Up/downside:	18.0%
InCred Research / Consensus:	6.7%
Reuters:	
Bloomberg:	BDL IN
Market cap:	US\$2,781m Rs201,930m
Average daily turnover:	US\$11.2m Rs812.5m
Current shares o/s:	1.8m
Free float:	25.1%
*Source: Bloomberg	

Key changes in this note

- FY24F EBITDA raised by 5%.
- FY24F PAT raised by 7%.
- Introduce FY25F estimates.



Price performance	1M	3M	12M
Absolute (%)	9.6	17.9	40.6
Relative (%)	7.0	11.9	24.3

Major shareholders	% held
Promoters	74.9
HDFC Mutual Fund	8.8
Max Life Insurance	3.0

Analyst(s)

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Bharat Dynamics Ltd

Surge in order execution likely in FY24F

- Order execution in 4QFY23 was hindered due to supply chain problems but we believe Bharat Dynamics (BDL) can stage a recovery in FY24F.
- The order backlog stands at approximately Rs240bn (~9.6x FY23 sales). Exports and multiple collaborations provide further opportunities.
- Reiterate ADD rating on BDL with a higher TP of Rs1,300 (24x FY25F EPS).

Order execution in FY23 hindered by supply chain problems

The 4QFY23 sales and EBITDA of Bharat Dynamics (BDL) declined by 42%/55%, respectively, despite a strong order backlog. BDL attributed the significant shortfall in sales to (1) delay in receipt of imported electronic items and critical explosive materials from foreign original equipment manufacturers (OEMs) due to the ongoing Russia-Ukraine war, (2) design changes in the production of naval products, and (3) delay in receipt of MR-SAM kits from an OEM resulted in non-completion of production. BDL stated that it expects to stage a recovery in FY24F, and we factor the same in our estimates.

All-time high order book bodes well for future growth

BDL has secured multiple orders in FY23, such as Astra MK-1 Air-to-Air Missile (AAM) and related equipment. BDL's order backlog as of 1 Mar 2023 stood at Rs137bn. Further, BDL has signed a contract with India's Ministry of Defence (MoD) for its Akash Weapon System (~Rs82bn) and Counter Measures Dispensing System (CMDS). Hence, including the new orders, we estimate BDL's order backlog to be very healthy (~Rs240bn, ~9.6x FY23 sales). BDL has also received export orders (~Rs27bn as of 1 Mar 2023). In addition to the domestic market, the Akash Weapon System, Astra Missile, CMDS, Konkurs M, SAAW, and light-weight torpedo are exported to friendly foreign countries.

Order pipeline, new products launches and capacity expansion

BDL's order pipeline is strong and provides a medium-term outlook with some large-ticket orders like Quick Reaction Surface-to-Air Missile (QR-SAM), Vertically Launched-Short-Range Surface-to-Air Missile (VL-SR-SAM), and Smart Anti-Airfield Weapon (SAAW). BDL set up a warhead manufacturing facility at its Bhanur unit, and seeker manufacturing facility at its Kanchanbagh unit. Also, BDL is in the process of setting up facilities at Ibrahimpatnam (Telangana), Amravati (Maharashtra) and Jhansi (Uttar Pradesh).

Retain ADD rating with a higher target price of Rs1,300

Considering the order inflow traction and strong order win prospects in the near term as well as in the medium term, we see traction in revenue growth for the next few years, after witnessing sluggish revenue growth in FY23. We raise our FY24F EPS by 7% on higher margins and introduce FY25F estimates. We maintain ADD rating on the stock with a higher target price of Rs1,300 (24x FY25F EPS) as we roll over to FY25F EPS. Any further delay in finalization of large orders is a downside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	19,138	28,174	24,894	42,637	52,515
Operating EBITDA (Rsm)	3,447	7,261	4,082	10,513	13,150
Net Profit (Rsm)	2,578	5,335	3,522	8,078	9,959
Core EPS (Rs)	14.1	29.1	19.2	44.1	54.3
Core EPS Growth	(51.8%)	107.0%	(34.0%)	129.4%	23.3%
FD Core P/E (x)	78.34	37.85	57.34	25.00	20.28
DPS (Rs)	9.2	8.0	9.1	13.2	16.3
Dividend Yield	0.84%	0.72%	0.83%	1.20%	1.48%
EV/EBITDA (x)	54.05	25.20	40.02	16.80	13.13
P/FCFE (x)	18.64	39.47	9.45	(18.64)	29.29
Net Gearing	(58.1%)	(62.7%)	(120.2%)	(67.1%)	(65.3%)
P/BV (x)	7.52	6.66	6.29	5.35	4.51
ROE	9.7%	18.7%	11.3%	23.1%	24.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Surge in order execution likely in FY24F

Order execution in FY23 hindered by supply chain problems ➤

4QFY23 sales declined 42% yoy to Rs7.9bn, despite the strong opening order backlog. EBITDA stood at Rs1.8bn (down 55% yoy), impacted by sales shortfall and higher provisioning. EBITDA margin at 23% (declined by 628bp yoy). Accordingly, reported PAT stood at Rs1.5bn (down 42% yoy).

BDL attributed the significant shortfall in sales to:

- Delay in receipt of imported electronic items and critical explosive materials from foreign original equipment manufacturers (OEMs) due to the ongoing Russia-Ukraine war.
- Design changes in the production of naval products.
- Delay in MR-SAM kits from an OEM resulted in non-completion of production.

BDL stated that it expects to stage a recovery in FY24F, and we factor the same in our estimates.

BDL's board has declared a final dividend of Rs1.2 per share for FY23. This is in addition to an interim dividend of Rs8.15 per share, taking its total dividend to Rs9.35 per share in FY23.

Figure 1: Standalone quarterly analysis

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	FY23	FY22	yoy % chg
Total Revenue	7,982	13,810	(42.2%)	4,615	73.0%	24,894	28,174	(11.6%)
Less:								
Net Raw Material Consumed	3,731	6,578	(43.3%)	1,395	167.5%	11,913	11,790	1.0%
Other Expenses	1,074	1,689	(36.4%)	1,158	(7.2%)	3,574	3,417	4.6%
Personnel Cost	1,343	1,503	(10.6%)	1,174	14.4%	5,325	5,707	(6.7%)
Total Expenditure	6,148	9,770	(37.1%)	3,727	65.0%	20,812	20,913	(0.5%)
EBITDA	1,834	4,040	(54.6%)	889	106.3%	4,082	7,261	(43.8%)
Less: Depreciation	139	206	(32.3%)	186	(25.1%)	773	904	(14.5%)
EBIT	1,695	3,835	(55.8%)	703	141.2%	3,309	6,357	(47.9%)
Less: Interest paid	8	8	(0.2%)	8	2.3%	45	34	32.5%
Non-operating Income	372	287	29.5%	365	1.9%	1,554	1,112	39.7%
Profit Before Tax	2,058	3,777	(45.5%)	1,059	94.3%	4,818	7,099	(32.1%)
Less: Total Tax	531	1,134	(53.2%)	222	139.2%	1,296	2,100	(38.3%)
Reported PAT	1,527	2,643	(42.2%)	837		3,522	4,999	(29.6%)
Diluted Shares Outstanding (m)	183	183		183		183	183	
Reported EPS-Diluted (Rs.)	8.3	14.4	(42.2%)	4.6	82.4%	19.2	27.3	(29.6%)
Proforma EPS Diluted (Rs.)	8.3	16.3	(48.7%)	4.6	82.4%	19.2	29.1	(34.0%)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

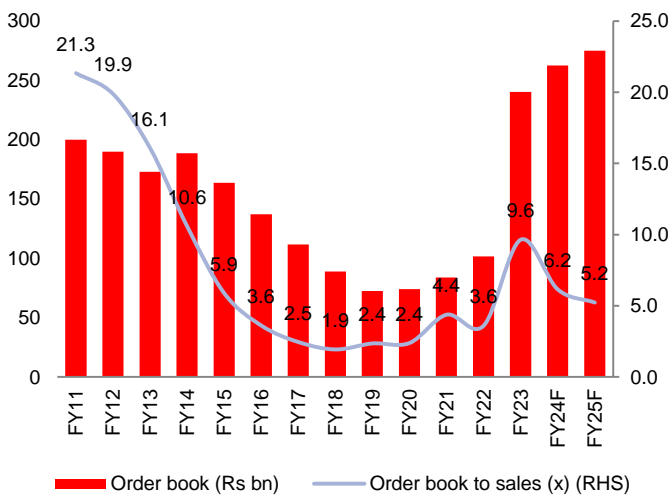
Margin Analysis	4QFY23	4QFY22	yoy bp chg	3QFY23	qoq bp chg	FY23	FY22	yoy bp chg
Raw Material Cost as a % of Total Revenue	46.7%	47.6%	-89	30.2%	1653	47.9%	41.8%	601
Other Expenses as a % of Total Revenue	13.5%	12.2%	123	25.1%	-1162	14.4%	12.1%	223
Personnel Cost as a % of Total Revenue	16.8%	10.9%	594	25.4%	-862	21.4%	20.3%	113
EBITDA Margin	23.0%	29.3%	-628	19.3%	372	16.4%	25.8%	-937
Proforma NPM	19.1%	21.6%	-244	18.1%	99	14.1%	18.9%	-479

SOURCE: INCRED RESEARCH, COMPANY REPORTS

All-time high order book bodes well for future growth

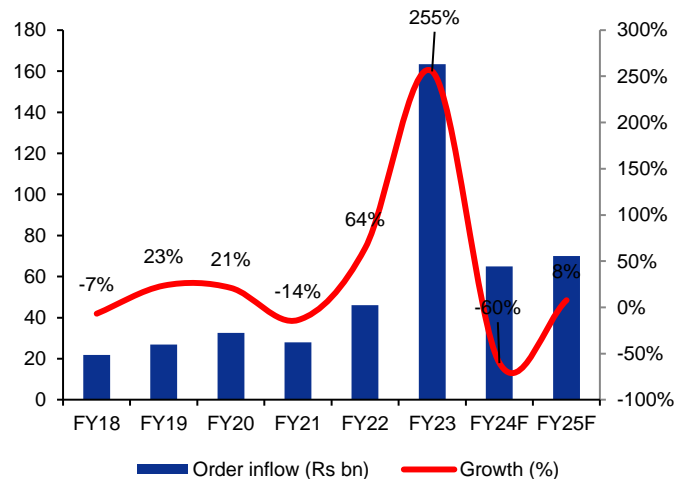
BDL has secured multiple orders in FY23, such as Astra MK-I Air-to-Air Missile (AAM) and related equipment. BDL's order backlog as of 1 Mar 2023 was at Rs137bn. Further, BDL has signed a contract with India's Ministry of Defence (MoD) for its Akash Weapon System (~Rs82bn) and Counter Measures Dispensing System (CMDS). Hence, including the new orders, we estimate BDL's order backlog to be very healthy (~Rs240bn, or ~9.6x FY23 sales).

Figure 3: BDL's order book position



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: BDL's order inflow position



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BDL has also received export orders (~Rs27bn as on 1 Mar 2023). In addition to the domestic market, the Akash Weapon System, Astra Missile, CMDS, Konkurs M, SAAW, and light-weight torpedo are exported to friendly foreign countries.

Further, BDL is poised to manufacture state-of-the-art VSHORADS (Very Short-Range Air Defence System), Laser Beam Riding Munitions under the transfer of technology (TOT) agreement with Thales UK.

Order pipeline, new products launches & capacity expansion ➤

In FY23, BDL set up a warhead manufacturing facility at its Bhanur unit, and seeker manufacturing facility at its Kanchanbagh unit. Further, the company is in the process of setting up facilities at Ibrahimpatnam (Telangana), Amravati (Maharashtra) and Jhansi (Uttar Pradesh).

Order pipeline

DL's order pipeline is strong and provides medium-term outlook with some large-ticket orders like Quick Reaction Surface-to-Air Missile (QR-SAM), Vertically Launched-Short-Range Surface-to-Air Missile (VL-SR-SAM), and Smart Anti-Airfield Weapon (SAAW).

Figure 5: Key new products in the pipeline		
Type	Product	Status*
Surface-to-Air Missile (SAM)	Quick Reaction Surface-to-Air Missile (QR-SAM)	User trials completed & waiting for RFP.
	Vertically Launched Short-Range Surface-to-Air Missile (VL-SR-SAM)	Currently, development trials under progress.
	UAV-launched Precision Guided Munition Air-to-Surface Missile (UL PGM)	Developmental trials completed; preparing for the next phase of trials and is expected to be produced by 2024F.
Air-to-Surface Missile	Smart Anti-Airfield Weapon (SAAW)	Development order received by BDL; final user trials were scheduled in Apr 2023**.
	Helicopter launched NAG (HELINA)	User trials completed in 2022; awaiting RFP from Army Aviation & IAF.
Anti-Tank Guided Missile (ATGM)	Man-Portable Anti-Tank Guided Missile (MP-ATGM)	Flight trials completed; development/user trials are under progress.
	Amogha-III ATGM	Under final stage of development trials; field trials were expected to commence in Apr 2023**.
	NAG	Development trials concluded; Formal RFP was expected by Apr 2023**.

SOURCE: INCRED RESEARCH, COMPANY REPORTS
 NOTE: (*) STATUS FOR ALL PRODUCTS IS AS OF 1 MAR 2023.

(**) WE AWAIT FURTHER DETAILS REGARDING ACTIONS SCHEDULED IN APR 2023

New product launches

During Def Expo-2022 and Aero India-2023 held in FY23, BDL unveiled new products like the vehicle-mounted Amogha-III ATGM (Sangramika), light support vehicle-mounted Laser Beam Riding MANPAD (Sanharika) and ATGM for MBT ARJUN, Vertical Launch Short-Range Surface-to-Air Missile (VL-SR-SAM), SAL seeker ATGM for BMP II and Drone Delivered Missile (JISHNU).

Figure 6: Bharat Dynamics at Aero India 2023

New product launches	
Product	Description
JISHNU	A drone-delivered missile.
VL-SR-SAM	Vertical Launch Short-Range Surface-to-Air Missile.
SAL Seeker ATGM	Semi-Active Laser Seeker-based ATGM for BMP-II - a subsonic missile.
Major announcements	
Company Name	Description
Thales (Belgium)	For setting up manufacturing facilities for Laser Guided Rocket and its major components in India meant for Indian defence forces and to meet future requirements of export markets jointly with Thales.
EDGE Group (Al Tariq) - Abu Dhabi	To jointly produce the all-weather, day/night, long-range precision guided munition (LR-PGM) kits in India.
Bultexpro, Bulgaria	To set up manufacturing facilities for 122mm GRAD BM ER and NON-ER rockets in India (including ToT).
Main Arrow LLC (UAE)	Exploring the possibility of work on the TJ1000 Turbojet engine technology for drones/missiles meant for the export market.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Expansion of manufacturing facilities

BDL is headquartered in Hyderabad, Telangana. The company currently has three manufacturing facilities in Hyderabad (Telangana), Bhanur (Telangana) and Vishakhapatnam (Andhra Pradesh).

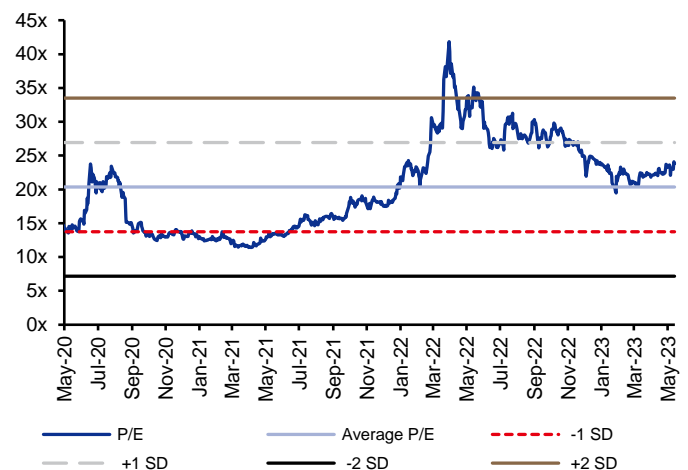
In FY23, BDL set up a warhead manufacturing facility at its Bhanur unit, and seeker manufacturing facility at its Kanchanbagh unit. This makes BDL one of the few RF seeker manufacturers and testers in the world. Further, BDL is in the process of setting up of a high temperature carbon composite manufacturing facility at its Hyderabad unit.

BDL is also in the process of setting up facilities at Ibrahimpatnam (Telangana), Amravati (Maharashtra) and Jhansi (Uttar Pradesh).

Figure 7: Earnings revision summary

(Rs m)	Old estimates		New estimates		Change (%)
	FY24F	FY24F	FY25F	FY24F	
Revenue	43,610	42,637	52,515	-2.2%	
EBITDA	10,017	10,513	13,150	4.9%	
Core PAT	7,525	8,078	9,959	7.4%	
EPS	41.1	44.1	54.3	7.4%	

Figure 8: BDL trades at 24x one-year forward P/E - below +1SD



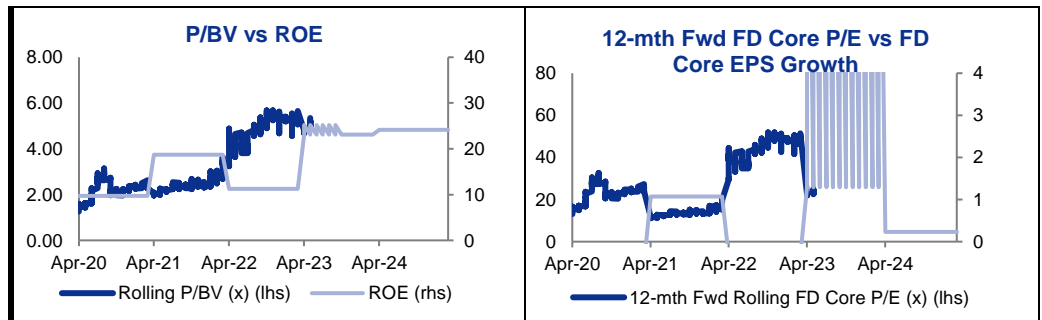
SOURCE: INCRED RESEARCH, COMPANY REPORTS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Retain ADD rating on BDL with a target price of Rs1,300 ➤

Considering the order inflow traction and strong order prospects in the near term, we see traction in revenue growth for the next few years, after witnessing sluggish revenue growth in FY23. We raise FY24F EPS by 7% on higher margins and introduce FY25F estimates. We maintain our ADD rating on the stock with a higher target price of Rs1,300 (24x FY25F EPS) as we roll over to FY25F EPS. Any further delay in finalization of large orders is a downside risk.

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	19,138	28,174	24,894	42,637	52,515
Gross Profit	10,726	16,384	12,981	23,024	28,358
Operating EBITDA	3,447	7,261	4,082	10,513	13,150
Depreciation And Amortisation	(945)	(904)	(773)	(970)	(1,034)
Operating EBIT	2,502	6,357	3,309	9,543	12,116
Financial Income/(Expense)	(39)	(34)	(45)	(45)	(45)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	946	1,112	1,554	1,554	1,554
Profit Before Tax (pre-EI)	3,409	7,435	4,818	11,052	13,625
Exceptional Items					
Pre-tax Profit	3,409	7,435	4,818	11,052	13,625
Taxation	(831)	(2,100)	(1,296)	(2,973)	(3,666)
Exceptional Income - post-tax					
Profit After Tax	2,578	5,335	3,522	8,078	9,959
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,578	5,335	3,522	8,078	9,959
Recurring Net Profit	2,578	5,335	3,522	8,078	9,959
Fully Diluted Recurring Net Profit	2,578	5,335	3,522	8,078	9,959

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	3,447	7,261	4,082	10,513	13,150
Cash Flow from Invt. & Assoc.	(38)	174	736	539	475
Change In Working Capital	7,756	(983)	18,915	(18,883)	(3,099)
(Incr)/Decr in Total Provisions	110	1,048	262		
Other Non-Cash (Income)/Expense	945	904	773	970	1,034
Other Operating Cashflow	(588)	(774)	(1,137)	(1,463)	(1,463)
Net Interest (Paid)/Received	(39)	(34)	(45)	(45)	(45)
Tax Paid	(778)	(2,034)	(2,181)	(2,973)	(3,666)
Cashflow From Operations	10,815	5,562	21,405	(11,343)	6,385
Capex	(566)	(1,020)	(1,083)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	1		2		
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	608	595	1,085	1,554	1,554
Cash Flow From Investing	43	(426)	5	554	554
Debt Raised/(repaid)	(25)	(20)	(31)	(45)	(45)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,691)	(1,453)	(1,669)	(2,423)	(2,988)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(1,716)	(1,473)	(1,701)	(2,469)	(3,033)
Total Cash Generated	9,141	3,663	19,709	(13,258)	3,906
Free Cashflow To Equity	10,832	5,116	21,378	(10,835)	6,894
Free Cashflow To Firm	10,896	5,171	21,455	(10,744)	6,985

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	15,610	18,995	38,589	25,330	29,237
Total Debtors	3,227	3,042	1,846	4,673	5,755
Inventories	13,970	16,544	18,224	24,531	30,214
Total Other Current Assets	16,924	17,340	18,673	25,764	31,732
Total Current Assets	49,730	55,922	77,331	80,298	96,937
Fixed Assets	9,365	9,146	8,829	8,859	8,825
Total Investments	45				
Intangible Assets					
Total Other Non-Current Assets	477	571	564	564	564
Total Non-current Assets	9,887	9,717	9,393	9,423	9,390
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,426	5,525	4,644	8,177	10,071
Other Current Liabilities	25,344	29,809	49,966	43,774	51,514
Total Current Liabilities	32,770	35,333	54,609	51,951	61,586
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions					
Total Liabilities	32,770	35,333	54,609	51,951	61,586
Shareholders Equity	26,847	30,306	32,115	37,770	44,741
Minority Interests					
Total Equity	26,847	30,306	32,115	37,770	44,741

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	(38.2%)	47.2%	(11.6%)	71.3%	23.2%
Operating EBITDA Growth	(52.6%)	110.6%	(43.8%)	157.5%	25.1%
Operating EBITDA Margin	18.0%	25.8%	16.4%	24.7%	25.0%
Net Cash Per Share (Rs)	85.17	103.64	210.54	138.21	159.52
BVPS (Rs)	146.48	165.35	175.22	206.07	244.11
Gross Interest Cover	63.94	185.65	72.95	210.36	267.09
Effective Tax Rate	24.4%	28.2%	26.9%	26.9%	26.9%
Net Dividend Payout Ratio	65.8%	27.3%	47.4%	30.0%	30.0%
Accounts Receivables Days	63.04	40.61	35.83	27.90	36.24
Inventory Days	488.92	472.34	532.64	397.84	413.59
Accounts Payables Days	236.07	200.47	155.78	119.30	137.86
ROIC (%)	22.4%	56.2%	(51.1%)	76.7%	78.1%
ROCE (%)	9.5%	22.2%	10.6%	27.3%	29.4%
Return On Average Assets	4.5%	8.6%	4.7%	9.2%	10.2%

Key Drivers					
(Rs bn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Order inflows	28,030	46,014	163,404	65,000	70,000
Order backlog	83,860	101,700	240,210	262,573	280,058

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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