

India

ADD (no change)

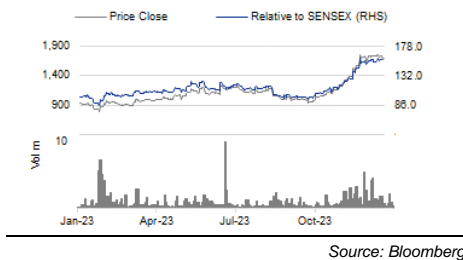
Consensus ratings*: Buy 9 Hold 0 Sell 1

| | |
|------------------------------|--------------------------|
| Current price: | Rs1,702 |
| Target price: | Rs2,080 ▲ |
| Previous target: | Rs1,300 |
| Up/downside: | 22.2% |
| InCred Research / Consensus: | 46.3% |
| Reuters: | BARA.NS |
| Bloomberg: | BDL IN |
| Market cap: | US\$3,752m Rs311,890m |
| Average daily turnover: | US\$14.3m Rs1185.3m |
| Current shares o/s: | 1.8m |
| Free float: | 25.1% |

*Source: Bloomberg

Key changes in this note

- Reduce FY24F revenue/EBITDA by 4%/7%.
- Introduce FY26F estimates.
- Roll forward target price to Dec 2025F EPS.



| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|------|
| Absolute (%) | 8.3 | 75.5 | 83.3 |
| Relative (%) | 8.4 | 58.1 | 55.3 |

| Major shareholders | % held |
|---------------------------|--------|
| Promoters | 74.9 |
| HDFC Mutual Fund | 3.8 |
| Canara Robeco Mutual Fund | 1.6 |

Research Analyst(s)

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Bharat Dynamics Ltd

Recovery in order execution likely in FY25F

- Supply chain problems continue to hurt execution in 3QFY24. We feel BDL can stage a recovery in FY25F & hence, we factor in a 30% CAGR (FY23-FY26F).
- We estimate the order backlog position at approx. Rs200bn (~8x TTM sales). Exports and multiple collaborations provide further opportunities, in our view.
- Retain ADD rating on BDL with a higher TP of Rs2,080 (40x Dec 2025F EPS).

Misses estimates; supply chain challenges continues to persist

While Bharat Dynamics' (BDL) 3QFY24 revenue (Rs 6bn) and EBITDA (Rs1.2bn) grew by 30-33% yoy, respectively, it missed Incred revenue estimate (Rs7bn) by 16%. The EBITDA margin (19.7%) was largely in line, and higher interest income due to a strong cash balance boosted PAT. Hence, PAT grew 60% yoy, in line with our estimate. BDL stated that supply chain challenges continue to persist, leading to a delay in receipt of certain critical materials and kits. BDL expects these supply chain challenges to be resolved by the end of FY24F.

Order book continues to remain healthy

Although BDL has not won major new orders in 3QFY24, its order book continues to remain strong. We estimate BDL's order book to top Rs200bn, implying over 8x OB/sales (TTM) ratio. During YTD FY24, BDL won several new orders worth Rs16bn like the anti-tank guided missile (Rs7.5bn), order for upgraded Akash missile system (Rs2.5bn), laser beam-riding missile or LBRM (Rs2.5bn), and UAV-launched precision guided munition or ULPGM (Rs1.1bn). BDL also has an export order backlog worth Rs26bn.

Strong order pipeline provides medium-term outlook

BDL's order pipeline and new product development is strong and provides medium-term outlook with some large-ticket orders like Quick Reaction Surface-to-Air Missile (QR-SAM), Medium Range Surface-to-Air Missile (MR-SAM), Vertically Launched-Short-Range Surface-to-Air Missile (VL-SR-SAM), Smart Anti-Airfield Weapon (SAAW), NAG Anti-tank guided missile system (ATGM) and Konkurs-M ATGM.

Maintain ADD rating with a revised target price of Rs2,000

After witnessing sluggish revenue growth in FY23 and considering the healthy order book position & strong order win prospects in the near term as well as in the medium term, we see traction in BDL's revenue growth for the next few years. Hence, we factor in a sales CAGR of 30% over FY23-FY26F. We factor in a slower-than-expected recovery in order execution in FY24F and hence, we slightly reduce our FY24F and FY25F revenue/ EBITDA estimates by around 3%/ 7-9%, respectively, and introduce FY26F estimates. We maintain ADD rating on the stock with a higher target price of Rs2,080 (40x Dec 2025F EPS), from Rs1,300 earlier, as we roll forward to Dec 2025F EPS. Any further delay in resolving supply chain challenges and finalization of large orders is a downside risk.

| Financial Summary | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|-----------------------------------|---------|----------|---------|---------|---------|
| Revenue (Rs m) | 28,174 | 24,894 | 32,428 | 43,823 | 53,952 |
| Operating EBITDA (Rs m) | 7,261 | 4,082 | 6,679 | 9,741 | 12,223 |
| Net Profit (Rs m) | 5,335 | 3,522 | 6,418 | 8,151 | 9,993 |
| Core EPS (Rs) | 29.1 | 19.2 | 35.0 | 44.5 | 54.5 |
| Core EPS Growth | 107.0% | (34.0%) | 82.3% | 27.0% | 22.6% |
| FD Core P/E (x) | 58.46 | 88.56 | 48.59 | 38.26 | 31.21 |
| DPS (Rs) | 8.0 | 9.2 | 10.5 | 13.3 | 16.4 |
| Dividend Yield | 0.47% | 0.54% | 0.62% | 0.78% | 0.96% |
| EV/EBITDA (x) | 40.34 | 66.95 | 42.07 | 28.67 | 22.47 |
| P/FCFE (x) | 60.96 | 14.59 | (54.51) | 75.83 | 40.96 |
| Net Gearing | (62.7%) | (120.2%) | (84.5%) | (77.1%) | (75.5%) |
| P/BV (x) | 10.29 | 9.71 | 8.52 | 7.37 | 6.33 |
| ROE | 18.7% | 11.3% | 18.7% | 20.7% | 21.8% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Recovery in execution likely in FY25F

Figure 1: 3QFY24 standalone quarterly results

| YE Mar (Rs m) | 3QFY24 | 3QFY23 | yoy % chg | 2QFY24 | qoq % chg |
|-----------------------------------|--------------|--------------|--------------|--------------|----------------|
| Total Revenue | 6,016 | 4,615 | 30.3% | 6,158 | (2.3%) |
| Less: | | | | | |
| Net Raw Materials Consumed | 2,169 | 1,395 | 55.5% | 2,715 | (20.1%) |
| Other Expenses | 842 | 1,158 | (27.3%) | 811 | 3.8% |
| Personnel Costs | 1,818 | 1,174 | 54.8% | 1,292 | 40.7% |
| Total Expenditure | 4,829 | 3,727 | 29.6% | 4,818 | 0.2% |
| EBITDA | 1,187 | 889 | 33.6% | 1,340 | (11.4%) |
| Less: Depreciation | 165 | 186 | (11.5%) | 174 | (5.5%) |
| EBIT | 1,023 | 703 | 45.5% | 1,166 | (12.3%) |
| Less: Interest Paid | 8 | 8 | (6.5%) | 8 | (1.1%) |
| Non-operating Income | 876 | 365 | 140.2% | 783 | 11.9% |
| Profit Before Tax | 1,891 | 1,059 | 78.5% | 1,941 | (2.6%) |
| Less: Total Tax | 541 | 222 | 143.7% | 470 | 15.0% |
| Profit After Tax | 1,350 | 837 | 61.3% | 1,471 | (8.2%) |
| Reported EPS-Diluted (Rs.) | 7.4 | 4.6 | 61.3% | 8.0 | (8.2%) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

| Margin Analysis | 3QFY24 | 3QFY23 | yoy bp chg | 2Q FY24 | qoq bp chg |
|----------------------------------------|--------------|--------------|------------|--------------|-------------|
| Raw Material % of Total Revenue | 36.1% | 30.2% | 584 | 44.1% | -803 |
| Other Expenses as a % of Total Revenue | 14.0% | 25.1% | -1108 | 13.2% | 82 |
| Personnel % of Total Revenue | 30.2% | 25.4% | 477 | 21.0% | 923 |
| EBITDA Margin | 19.7% | 19.3% | 48 | 21.8% | -203 |
| Proforma NPM | 22.4% | 18.1% | 430 | 23.9% | -144 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: BDL's performance vs estimates

| (Rs bn) | Actuals | InCred estimate | Difference (%) | Bloomberg estimate | Difference (%) |
|-------------------|---------|-----------------|----------------|--------------------|----------------|
| Revenue | 6.0 | 7.2 | (15.9) | 7.2 | (16.7) |
| EBITDA | 1.2 | 1.4 | (17.0) | 1.4 | (12.1) |
| EBITDA Margin (%) | 19.7 | 20.0 | | 18.7 | |
| Adj. PAT | 1.4 | 1.3 | 3.0 | 1.5 | (10.8) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Major orders won by BDL

| Order Book Analysis | (Rs bn) |
|------------------------------------------------------|--------------|
| Order book (as of Mar 2022-end) | 103.0 |
| ADD: Order inflow in FY23 | 122.5 |
| Astra Mk-I BVR AAM (Indian Air Force & Indian Navy) | 29.7 |
| Akash Weapon System - upgraded (Indian Army) | 81.6 |
| Counter Measures Dispensing System (CMDS) - from BEL | 2.6 |
| Counter Measures Dispensing System (CMDS) - from HAL | 0.8 |
| Others | 7.8 |
| LESS: Orders executed (FY23) | 24.9 |
| Order book (as of Mar 2023-end) | 200.5 |
| ADD: Order inflow in 1HFY24 | 16.3 |
| ATGM (Indian Army) | 7.5 |
| Akash Missiles - upgraded (Indian Army) | 2.5 |
| LBRM | 2.5 |
| ULPGM | 1.1 |
| Others | 2.7 |
| LESS: Orders executed (1HFY24) | 9.1 |
| Order book (as of Sep 2023-end) | 207.7 |
| ADD: Order inflow in 3QFY24 | |
| LESS: Orders executed (3QFY24) | 6.0 |
| Estimated Order book (as of Dec 2023-end) | 201.6 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: BDL's new product development and order pipeline

| Future Program in association with DRDO | | Future Program in association with in-house R&D | | Future Program in association with foreign collaboration | |
|-------------------------------------------------|-----------------------------|-------------------------------------------------|-----------------------------|----------------------------------------------------------|-----------------------------|
| Project | Expected order finalization | Project | Expected order finalization | Project | Expected order finalization |
| Smart Anti Airfield Weapon (SAAW) | FY25F | Drone Fired 3.5kg Bomb | FY25F | Laser beam-riding missile (LBRM) | FY24F |
| UAV-launched precision guided munition (ULPGM) | FY25F | Drone Fired 1kg Bomb | FY25F | SPIKE ER2 | FY25F |
| QR-SAM | FY26F | AMOGHA III ATGM | FY27F | 70 mm Laser Guided Rockets (LGR) | FY25F |
| DHRUV ASTRA / HELINA ATGM | FY26F | Drone Fired Missile | FY27F | 122 mm GRAD Rockets | FY26F |
| Advanced Light Weight Torpedo | FY26F | | | MISTRAL | FY27F |
| Multi Influence Ground Mines (MIGM) | FY26F | | | ASRAAM | FY27F |
| Sonobuoy | FY26F | | | | |
| AKASH NG SAM | FY27F | | | | |
| VL-SR-SAM | FY27F | | | | |
| Man-Portable ATGM | FY27F | | | | |
| Electrical Heavy Weight Torpedo | FY27F | | | | |
| Long-Range Land Attack Cruise Missile (LR LACM) | FY28F | | | | |

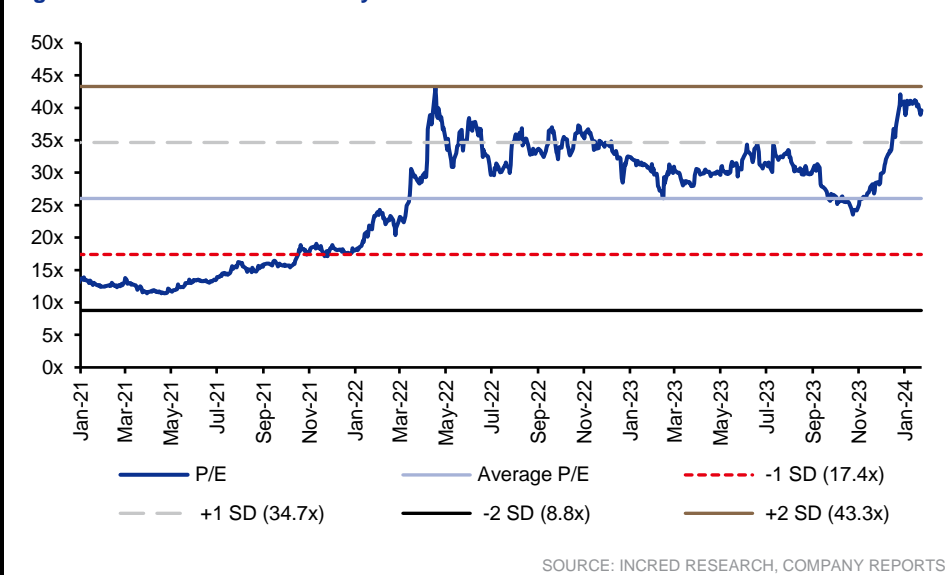
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Earnings revision summary

| (Rs m) | Old estimates | | | New estimates | | | Change (%) | |
|----------|---------------|--------|--------|---------------|--------|-------|------------|--|
| | FY24F | FY25F | FY24F | FY25F | FY26F | FY24F | 2025F | |
| Revenue | 33,629 | 45,319 | 32,428 | 43,823 | 53,952 | -3.6% | -3.3% | |
| EBITDA | 7,208 | 10,697 | 6,679 | 9,741 | 12,223 | -7.3% | -8.9% | |
| Core PAT | 5,685 | 8,188 | 6,418 | 8,151 | 9,993 | 12.9% | -0.4% | |
| EPS | 31.0 | 44.7 | 35.0 | 44.5 | 54.5 | 13.0% | -0.5% | |

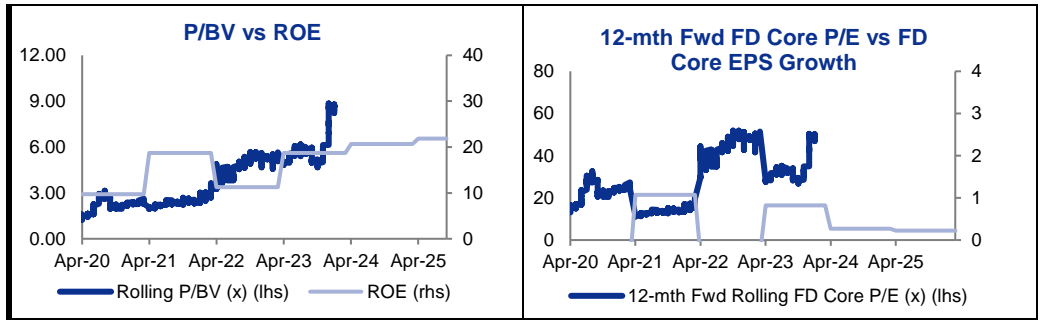
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: BDL trades at 40x one-year forward EPS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|-------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Net Revenues | 28,174 | 24,894 | 32,428 | 43,823 | 53,952 |
| Gross Profit | 16,384 | 12,981 | 17,511 | 23,445 | 28,864 |
| Operating EBITDA | 7,261 | 4,082 | 6,679 | 9,741 | 12,223 |
| Depreciation And Amortisation | (904) | (773) | (939) | (1,019) | (1,116) |
| Operating EBIT | 6,357 | 3,309 | 5,739 | 8,722 | 11,108 |
| Financial Income/(Expense) | (34) | (45) | (45) | (45) | (45) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 1,112 | 1,554 | 3,087 | 2,475 | 2,609 |
| Profit Before Tax (pre-EI) | 7,435 | 4,818 | 8,781 | 11,152 | 13,671 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 7,435 | 4,818 | 8,781 | 11,152 | 13,671 |
| Taxation | (2,100) | (1,296) | (2,362) | (3,000) | (3,678) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 5,335 | 3,522 | 6,418 | 8,151 | 9,993 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 5,335 | 3,522 | 6,418 | 8,151 | 9,993 |
| Recurring Net Profit | 5,335 | 3,522 | 6,418 | 8,151 | 9,993 |
| Fully Diluted Recurring Net Profit | 5,335 | 3,522 | 6,418 | 8,151 | 9,993 |

Cash Flow

| (Rs mn) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 7,261 | 4,082 | 6,679 | 9,741 | 12,223 |
| Cash Flow from Invt. & Assoc. | 174 | 736 | 2,102 | 1,410 | 1,448 |
| Change In Working Capital | (983) | 18,915 | (12,080) | (3,558) | (1,993) |
| (Incr)/Decr in Total Provisions | 1,048 | 262 | | | |
| Other Non-Cash (Income)/Expense | 904 | 773 | 939 | 1,019 | 1,116 |
| Other Operating Cashflow | (774) | (1,137) | (2,996) | (2,385) | (2,518) |
| Net Interest (Paid)/Received | (34) | (45) | (45) | (45) | (45) |
| Tax Paid | (2,034) | (2,181) | (2,362) | (3,000) | (3,678) |
| Cashflow From Operations | 5,562 | 21,405 | (7,764) | 3,183 | 6,552 |
| Capex | (1,020) | (1,083) | (1,000) | (1,500) | (1,500) |
| Disposals Of FAs/subsidiaries | | 2 | | | |
| Acq. Of Subsidiaries/Investments | | | | | |
| Other Investing Cashflow | 595 | 1,085 | 3,087 | 2,475 | 2,609 |
| Cash Flow From Investing | (426) | 5 | 2,087 | 975 | 1,109 |
| Debt Raised/(repaid) | (20) | (31) | (45) | (45) | (45) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (1,453) | (1,669) | (1,926) | (2,445) | (2,998) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | | | | | |
| Cash Flow From Financing | (1,473) | (1,701) | (1,971) | (2,491) | (3,043) |
| Total Cash Generated | 3,663 | 19,709 | (7,647) | 1,668 | 4,617 |
| Free Cashflow To Equity | 5,116 | 21,378 | (5,722) | 4,113 | 7,615 |
| Free Cashflow To Firm | 5,171 | 21,455 | (5,631) | 4,204 | 7,706 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Total Cash And Equivalents | 18,995 | 38,589 | 30,941 | 32,609 | 37,226 |
| Total Debtors | 3,042 | 1,846 | 3,554 | 4,803 | 5,913 |
| Inventories | 16,544 | 18,224 | 19,546 | 26,414 | 32,519 |
| Total Other Current Assets | 17,340 | 18,673 | 19,595 | 26,480 | 32,601 |
| Total Current Assets | 55,922 | 77,331 | 73,636 | 90,305 | 108,259 |
| Fixed Assets | 9,146 | 8,829 | 8,889 | 9,370 | 9,754 |
| Total Investments | | | | | |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | 571 | 564 | 564 | 564 | 564 |
| Total Non-current Assets | 9,717 | 9,393 | 9,454 | 9,934 | 10,319 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 5,525 | 4,644 | 6,219 | 8,404 | 10,347 |
| Other Current Liabilities | 29,809 | 49,966 | 40,263 | 49,521 | 58,921 |
| Total Current Liabilities | 35,333 | 54,609 | 46,482 | 57,926 | 69,268 |
| Total Long-term Debt | | | | | |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | | | | | |
| Total Provisions | | | | | |
| Total Liabilities | 35,333 | 54,609 | 46,482 | 57,926 | 69,268 |
| Shareholders Equity | 30,306 | 32,115 | 36,608 | 42,314 | 49,309 |
| Minority Interests | | | | | |
| Total Equity | 30,306 | 32,115 | 36,608 | 42,314 | 49,309 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Revenue Growth | 47.2% | (11.6%) | 30.3% | 35.1% | 23.1% |
| Operating EBITDA Growth | 110.6% | (43.8%) | 63.6% | 45.9% | 25.5% |
| Operating EBITDA Margin | 25.8% | 16.4% | 20.6% | 22.2% | 22.7% |
| Net Cash Per Share (Rs) | 103.64 | 210.54 | 168.82 | 177.92 | 203.11 |
| BVPS (Rs) | 165.35 | 175.22 | 199.74 | 230.87 | 269.03 |
| Gross Interest Cover | 185.65 | 72.95 | 126.51 | 192.26 | 244.86 |
| Effective Tax Rate | 28.2% | 26.9% | 26.9% | 26.9% | 26.9% |
| Net Dividend Payout Ratio | 27.3% | 47.6% | 30.0% | 30.0% | 30.0% |
| Accounts Receivables Days | 40.61 | 35.83 | 30.39 | 34.80 | 36.25 |
| Inventory Days | 472.34 | 532.64 | 462.09 | 411.61 | 428.71 |
| Accounts Payables Days | 200.47 | 155.78 | 132.90 | 130.97 | 136.41 |
| ROIC (%) | 56.2% | (51.1%) | 101.3% | 89.9% | 91.9% |
| ROCE (%) | 22.2% | 10.6% | 16.7% | 22.1% | 24.2% |
| Return On Average Assets | 8.6% | 4.7% | 7.6% | 8.9% | 9.2% |

| Key Drivers | | | | | |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Order inflows | 46,014 | 163,404 | 50,000 | 70,000 | 80,000 |
| Order backlog | 101,700 | 240,210 | 257,782 | 283,959 | 310,007 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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| any other material conflict of interest at the time of publication of the research report or at the time of public appearance | NO | NO |
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