

## Execution expected to pick up...

**About the stock:** Bharat Dynamics (BDL) is one of the leading defence PSUs in India engaged in the manufacture of surface to air missiles (SAMs), anti-tank guided missiles (ATGMs), air to air missiles (AAMs), underwater weapons, launchers, countermeasures and test equipment.

- Revenue from operations has increased at 14.1% CAGR in FY21-23. EBITDA and PAT have grown at a CAGR of 8.8% and 16.9%, respectively, over the same period
- Order book was at ₹ 24021 crore as of March 2023 end

**Q4FY23 Results:** Execution remained weak on account of a delay in supplies.

- Revenue declined 42.2% YoY to ₹ 798.3 crore; primarily on supply delays. Sequentially, revenue increased 73% as execution picked up QoQ
- The EBITDA margin contracted 628 bps YoY to 23%. EBITDA declined 54.6% YoY to ₹ 183.4 crore
- PAT declined 40.2% YoY to ₹ 152.8 crore

**What should investors do?** We expect BDL to deliver revenue, EBITDA CAGR of 40.5%, 66.8%, respectively, in FY23-25E. PAT is likely to grow at 56.8% CAGR (FY23-25E).

- We maintain our **BUY** rating on the stock

**Target Price & Valuation:** We value BDL at ₹ 1230 on 26x P/E on FY25E EPS basis.

**Key triggers for future price performance:**

- Order book at ₹ 24021 crore (9.6x TTM revenues) gives strong revenue visibility. Moreover, strong pipeline of orders includes missiles like quick reaction surface to air, medium range surface to air, Helina air to surface, smart anti airfield weapon, vertically launched short range surface to air, Amogha-III and man portable anti-tank guided missiles etc
- Continuous investment in R&D and expanding infrastructure to develop new generation missiles and torpedoes
- Huge opportunity in exports (Akash SAM, ATGMs, Astra, Torpedoes) driven by rising interest from friendly countries, cost competitiveness and high indigenisation levels

**Alternate Stock Idea:** Apart from BDL, we like Bharat Electronics (BEL) in the defence space.

- Strong order book & healthy pipeline in defence electronics offers strong visibility; diversifying into non-defence to help improve margins
- BUY with a target price of ₹ 135/share

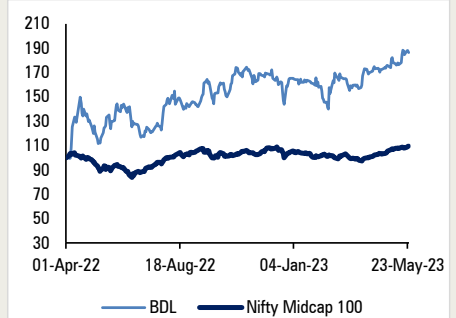


भारत डायनामिक्स लिमिटेड  
BHARAT DYNAMICS LIMITED

### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	19,190
FY23 Debt (₹ Crore)	0
FY23 Cash (₹ Crore)	3,859
EV (₹ Crore)	15,331
52 Week H/L (Rs)	1104 / 648
Equity Capital (₹ Crore)	183.3
Face Value	10

### Share Price Performance



### Shareholding Pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	74.9	74.9	74.9	74.9
FII	2.4	2.9	3.2	2.8
DII	14.6	13.0	12.4	14.1
Others	8.1	9.2	9.4	8.1

### Key risks

- Dependence on government contracts
- Dependence on OEMs for key components

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### Key Financial Summary

(₹ crore)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Revenues	3,105	1,914	2,817	2,489	(7.1)	3,804	4,915	40.5
EBITDA	755	345	726	408	(18.6)	758	1,136	66.8
EBITDA margin (%)	24.3	18.0	25.8	16.4		19.9	23.1	
Net Profit	535	258	492	352	(13.0)	593	866	56.8
EPS (₹)	29.2	14.1	26.8	19.2		32.4	47.3	
P/E (x)	35.8	74.2	37.1	54.3		32.3	22.1	
EV/EBITDA (x)	24.5	51.0	23.7	37.4		22.7	15.1	
RoCE (%)	28.6	12.8	24.6	15.1		23.1	28.7	
RoE (%)	20.5	9.6	17.0	11.0		16.5	20.6	

## Q4FY23 Result – Key Highlights

- Revenue for the quarter declined 42.2% YoY to ₹ 798.3 crore; largely in line with estimate of ₹ 766.9 crore. Sequentially, revenue increased 73% as execution remains better QOQ. The sharp revenue de-growth during the quarter was mainly due to a delay in receipt of some items from OEMs, supplies and design changes in the production of naval products. For FY23, revenue is down 11.6% YoY to ₹ 2489.4 crore
- Gross margin was at 53.3%, improving 90 bps YoY. However, it contracted by 1650 bps QoQ on account of a sharp increase in raw material cost
- EBITDA margins came in at 23% (vs. estimate of 25.1%); contracting 528 bps YoY; primarily due to negative operating leverage on lower revenues. Sequentially EBITDA margin was up 372 bps. FY23 EBITDA margin was also down 937 bps YoY at 16.4% as others cost remained higher
- EBITDA declined 54.6% YoY (+106.3% QoQ) to ₹ 183.4 crore (vs. estimate of ₹ 192.2 crore). FY23 EBITDA was down 43.8% YoY to ₹ 408.2 crore
- Thus, PAT came in at ₹ 152.8 crore; down 40.2% YoY mainly led by a decline in revenues and contraction in margins. FY23 PAT was down 28.3% YoY to ₹ 352.2 crore
- The order backlog was at ₹ 24021 crore as of March end (9.6x FY23 revenues). Order inflows during the year were ₹ 16200 crore, which includes key orders like ₹ 8161 crore Akash Weapon system contract received in March 2023, ~₹ 2000 crore exports contract received in February 2023

**Exhibit 1: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Operating Income	798.3	766.9	1,381.1	-42.2	461.6	73.0	Revenue declined sharply on weak execution led by delays in supplies
Other income	37.2	39.8	28.7	29.5	36.5	1.9	
Total Revenue	835.4	806.6	1,409.8	-40.7	498.0	67.7	
Raw materials costs	373.1	317.9	657.8	-43.3	139.5	167.5	
Employees Expenses	134.3	135.6	150.3	-10.6	117.4	14.4	
Other Expenses	107.4	121.2	168.9	-36.4	115.8	-7.2	
Total Expenditure	614.8	574.7	977.0	-37.1	372.7	65.0	
EBITDA	183.4	192.2	404.1	-54.6	88.9	106.3	
EBITDA margins (%)	23.0	25.1	29.3	-628 bps	19.3	372 bps	Margins came lower than estimates on higher COGS
Interest	0.8	0.8	0.8		0.8		
Depreciation	13.9	22.7	20.6	-32.3	18.6	-25.1	
Tax	53.1	62.9	113.4	-53.2	22.2	139.2	
PAT	152.8	145.5	255.4	-40.2	83.7	82.4	

Source: ICICI Direct Research, Company

**Exhibit 2: Change in Estimates**

₹ Crore)	FY23		FY24E		FY25E		% Change
	Actual	Old	New	% Change	Old	New	
Revenue	2,489	4,112	3,804	-7.5	4,914	4,915	0.0
EBITDA	408	1,038	758	-26.9	1,253	1,136	-9.3
EBITDA Margin (%)	16.4	25.2	19.9	-530 bps	25.5	23.1	-237 bps
PAT	352	779	593	-23.8	925	866	-6.4
EPS (₹)	19.2	42.5	32.4	-23.8	50.5	47.3	-6.4

Source: ICICI Direct Research, Company

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Revenue	2,817	2,489	3,804	4,915
% Growth	47.2	(11.6)	52.8	29.2
Other income	111.2	155.4	160.0	170.0
Total Revenue	2,817	2,489	3,804	4,915
% Growth	43.0	(11.6)	52.8	29.2
Total Raw Material Costs	1,179	1,191	1,826	2,310
Employee Expenses	571	532	630	737
other expenses	342	357	590	731
Total Operating Expenditure	2,091	2,081	3,045	3,778
Operating Profit (EBITDA)	726	408	758	1,136
% Growth	110.6	(43.8)	85.7	49.9
Interest	3	5	5	5
PBDT	834	559	913	1,301
Depreciation	90	77	89	98
PBT before Exceptional Items	743	482	824	1,203
Total Tax	210	130	231	337
PAT before MI	500	352	593	866
Minority Interest	-	-	-	-
PAT	492	352	593	866
% Growth	90.7	(28.3)	68.4	46.1
EPS	26.8	19.2	32.4	47.3

Source: ICICI Direct Research

Exhibit 4: Cash Flow Statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	492	352	593	866
Depreciation	90	77	89	98
Interest	3	5	5	5
Cash Flow before WC changes	585	434	687	969
Changes in inventory	(257)	(168)	(783)	(761)
Changes in debtors	19	120	(201)	(153)
Changes in loans & Advances	0	(0)	0	-
Changes in other current assets	16	54	(168)	(133)
Net Increase in Current Assets	(285)	(118)	(1,387)	(1,406)
Changes in creditors	(190)	(88)	286	219
Changes in provisions	79	42	143	145
Net Inc in Current Liabilities	61	(375)	872	820
Net CF from Operating activities	362	(59)	172	384
Changes in deferred tax assets	(11)	1	-	-
(Purchase)/Sale of Fixed Assets	(68)	(46)	(85)	(85)
Net CF from Investing activities	126	2,194	(1,857)	(118)
Dividend and Dividend Tax	(152)	(171)	(234)	(257)
Net CF from Financing Activities	(149)	(176)	(224)	(262)
Net Cash flow	339	1,959	(1,908)	4
Opening Cash/Cash Equivalent	1,561	1,900	3,859	1,950
Closing Cash/ Cash Equivalent	1,900	3,859	1,950	1,954

Source: ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Equity Capital	183.3	183.3	183.3	183.3
Reserve and Surplus	2,847	3,028	3,410	4,020
Total Shareholders funds	3,031	3,211	3,593	4,203
Other Non Current Liabilities	861.3	3,205.3	1,400.0	1,400.0
Total Debt	-	-	-	-
Total Liabilities	3,983	6,466	5,085	5,694
Gross Block	1,070	1,141	1,255	1,340
Acc: Depreciation	417	494	584	682
Net Block	704	646	671	658
Capital WIP	41	74	45	45
Total Fixed Assets	915	883	886	873
Non Current Assets	126	189	197	231
Inventory	1,654	1,822	2,605	3,366
Debtors	304	185	386	539
Loans and Advances	2	2	2	2
Other Current Assets	343	289	456	590
Cash	1,900	3,859	1,950	1,954
Total Current Assets	5,523	7,600	7,078	8,488
Current Liabilities	552	464	750	969
Provisions	45	0	45	45
Total Current Liabilities	2,581	2,206	3,078	3,898
Net Current Assets	2,942	5,394	4,001	4,590
Total Assets	3,983	6,466	5,085	5,694

Source: ICICI Direct Research

Exhibit 6: Ratio Analysis				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
EPS	26.8	19.2	32.4	47.3
Cash per Share	103.6	210.5	106.4	106.6
BV	165.3	175.2	196.1	229.3
Dividend per share	8.3	9.4	12.8	14.0
Dividend payout ratio	31%	49%	39%	30%
EBITDA Margin	25.8	16.4	19.9	23.1
PAT Margin	17.4	14.1	15.6	17.6
RoE	17.0	11.0	16.5	20.6
RoCE	24.6	15.1	23.1	28.7
RoIC	56.2	(51.1)	40.7	46.2
EV / EBITDA	23.7	37.4	22.7	15.1
P/E	37.1	54.3	32.3	22.1
EV / Net Sales	6.1	6.1	4.5	3.5
Sales / Equity	0.9	0.8	1.1	1.2
Market Cap / Sales	6.8	7.7	5.0	3.9
Price to Book Value	6.3	6.0	5.3	4.6
Asset turnover	0.9	0.8	1.1	1.2
Debtors Turnover Ratio	9.0	10.2	13.3	10.6
Creditors Turnover Ratio	4.4	4.9	6.3	5.7
Debt / Equity	-	-	-	-
Current Ratio	2.2	2.3	2.4	2.5
Quick Ratio	0.6	0.5	0.6	0.6

Source: ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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