

22nd March 2024

Bharat Dynamics – BUY

CMP : Rs. 1,690.0
Target Price : Rs. 2,029.0
Upside : 20%+
Stop Loss : Rs. 1,457.0 (Closing basis)

Investment Thesis

- Bharat Dynamics Ltd. (BDL) is a leading Defence PSU in India, manufacturing guided missile systems. It is a leading company for India's guided missiles and torpedoes and DRDO's co-development partner for next-generation surface-to-air missiles (SAM) and anti-tank guided missiles (ATGM). Since its inception, BDL has been working in collaboration with DRDO and foreign OEMs for manufacture and supply of various missiles and allied equipment to Indian Armed Forces. BDL is continuously engaged in new product development and upgradation of existing products to meet customer requirements. To modernise armed forces and reduce dependency on imports, several initiatives have been taken by the government to encourage 'Make in India' and Atmanirbhar Bharat. BDL has a strong manufacturing base and execution capabilities to capitalise on these tailwinds.
- BDL's guided missile portfolio - SAM, ATGM, underwater weapons (torpedoes) and air-to-air missiles (AAM) - forms more than 55% of India's guided missile and torpedo market which is expected to reach ~US\$25bn by CY26. Market for guided missiles and torpedoes is expected to gain significantly with India modernising its armed forces. BDL being the key supplier of guided missiles and torpedoes to Indian Armed Forces is expected to be big beneficiary in terms of order inflows. Looking at growing demand, BDL is expanding its capacity as well as doing backward integration. Presently, it operates three manufacturing units: two in Telangana (Hyderabad, Bhanur) and one in Andhra Pradesh (Visakhapatnam). BDL plans three more units in Ibrahimpatnam (Telangana), Amravati (Maharashtra), and Jhansi (UP) to meet Armed Forces' needs. This expansion aims to enhance capabilities, ensuring top-tier weapon system delivery by integrating operations backward.
- We believe GOI's thrust on indigenous guided weapon system production will help BDL in getting healthy order pipeline. BDL has created a solid market position that would maintain a steady order flow because of its concentration on indigenization (more than 90% for major missiles), robust vendor network and product life cycle support and refurbishment services. Guided missiles are on the five positive indigenization list and the negative import list, which will help BDL's order book in the upcoming years. In addition to heavyweight torpedoes, countermeasure dispensing systems and Akash SAMs, BDL is presently exporting its lightweight torpedoes.

Financials

- BDL's revenue and PAT de-grew by CAGR of 11.5% and 7.8%, respectively during FY18-23 majorly due to delays in receipt of some key components.

Consol. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	19,138	28,174	24,894	28,379	32,920
EBITDA	3,455	7,274	4,092	4,706	5,553
EBITDA Margin (%)	18.1%	25.8%	16.4%	16.6%	16.9%
PAT	2,578	4,999	3,522	4,768	5,550
EPS (Rs.)	14.1	27.3	19.2	26.0	30.3
P/E (x)	120.2	62.0	88.0	65.0	55.8
RoE (%)	9.6%	16.5%	11.0%	13.6%	14.4%

Stock Data

Market Cap (Rs. Mn)	3,09,910
Market Cap (\$ Mn)	3,707.1
Shares O/S (in Mn)	183.0
Avg. Volume (3 month)	1,340,000
52-Week Range (Rs.)	1,984.80 / 878.50

Shareholding Pattern

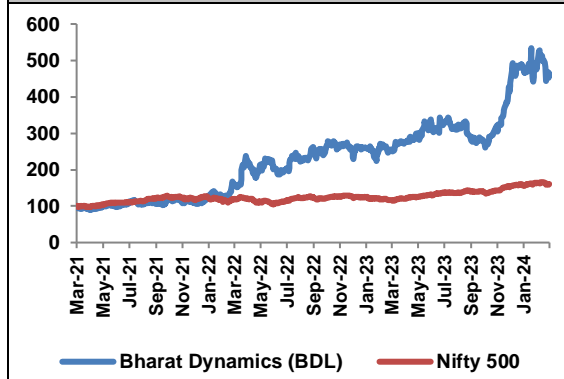
Promoters	74.93%
FII's	3.09%
Institutions	13.32%
Others (incl. body corporate)	8.66%

Key Ratios

Div Yield	0.6%
TTM PE	65.0x
ROE	11.3%
TTM EPS (Rs.)	26.0/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-5.1%	7.8%	82.1%
NIFTY 500	-1.8%	5.0%	37.6%



- BDL has reported 30.6% YoY growth in revenue to Rs.5,964mn in Q3FY24 led by pick-up in execution after witnessing muted execution during Q3FY23-Q1FY24 on account of delays in receipt of some key components.
- EBITDA of BDL grew by 33.6% YoY to Rs.1,187mn on account of strong revenue growth and better operating efficiency. As a result of this, EBITDA margin also improved by 45bps YoY and to 19.9% in Q3FY24.
- As on 31st Jan, 2024, BDL has orderbook of Rs.22,070 Cr, out of which export order consist of Rs.2,580 Cr. During the last 10 months (FY24 YTD), BDL has secured order worth Rs.1,717 Cr.

Key Business Highlights

- Bharat Dynamics Ltd. (BDL) is engaged in manufacturing of surface to air missiles (SAM), anti-tank guided missiles (ATGM), underwater weapons (torpedoes), airborne products and allied defence equipment, such as launchers, counter measures dispensing system (CMDS) and test equipment. It is also the prime production agency for guided weapon systems for the Indian defence forces.
- Currently, BDL has three manufacturing units, two are located in Hyderabad in Telangana and one in Visakhapatnam in Andhra Pradesh. It is expanding its manufacturing facility at 3 more units located at Ibrahimpatnam (Telangana), Amravati (Maharashtra) and Jhansi (UP) to cater to the growing demands of the Armed Forces.

Valuation

A number of steps have been taken by the government to promote the "Made in India" strategy and Atmanirbhar Bharat in an effort to modernize its armed forces and lessen reliance on imports. BDL can take advantage of these tailwinds thanks to its robust manufacturing base and execution skills. BDL might introduce new products and strengthen its position in the guided missile market with more R&D expenditures. In order to increase its top line, BDL plans to use its experience to create new products such as heavyweight torpedoes, ATGMs, and next-generation SAMs. Profit growth is anticipated to be aided by strong revenue visibility supported by a strong order book, a good order pipeline, the government's push for defense modernization through indigenization, an emphasis on exports, and internal efficiency.

As on 31st Jan, 2024, BDL's order book is Rs.20,070cr (8.7x TTM revenue) mainly comprising Akash, ATGMs, Konkurs, CMDS with execution period of 4-5 years provides great revenue visibility. BDL has a strong pipeline of orders which includes Vertically Launched Short Range Surface to Air Missile (VLSRSAM), Medium Range Surface to Air Missile (MRSAM) from Indian Navy, helicopter launched Anti-Tank Guided Missile (Helina), Smart Anti - Airfield Weapon (SAAW), Mistral, Advanced Short Range Air-to-Air Missile (ASRAAM). It intends to leverage its experience to develop new products such as new-generation SAMs, ATGMs, and heavyweight torpedoes, which would further improve its order flows going ahead.

With a leading Defence PSU in India, leader in India's guided missiles and torpedoes, initiatives taken by the government to modernize armed forces and reduce dependency on imports, plans to use its experience to create new products such as heavyweight torpedoes, ATGMs, and next-generation SAMs and strong order book of Rs.20,070cr (8.7x TTM revenue) with execution period of 4-5 years gives good revenue visibility, we are assigning BUY rating to Bharat Dynamics Ltd. (BDL) and value at 67.0x FY25E EPS of Rs.30.30 to arrive at target price of Rs.2,029.00, an upside of ~20.0%+.

Risk & Concern

- BDL need to obtain and maintain a number of statutory and regulatory permits and approvals. Any failure in compliance of applicable regulations may be subject to penalties, revocation of permits.
- Defence sector is heavily regulated by both Indian and international authorities. Any changes in regulations in the defence / missile manufacturing industry may adversely affect its future outlook.
- BDL has been working as co-development partner with DRDO in many projects and is dependent on DRDO for technical modifications for orders. Although in the recent years, BDL has focused on improving R&D team and infrastructure to overcome on dependency on DRDO.

Graphs & Charts

Figure 1: Net Sales Trend

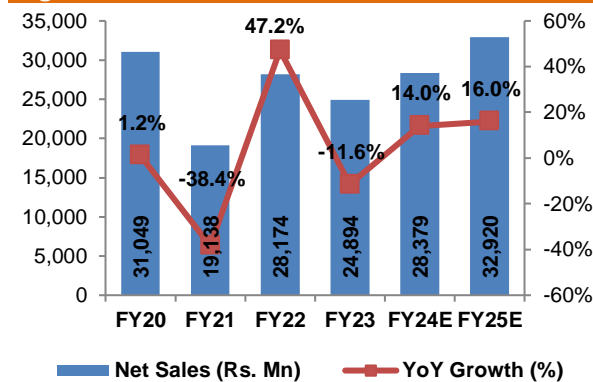


Figure 2: EBITDA & EBITDA Margin Trend

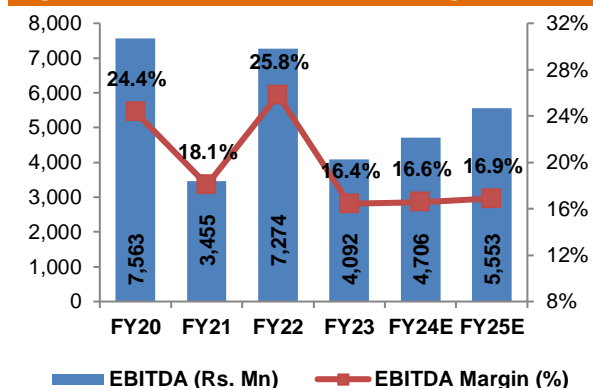


Figure 3: PAT Trend

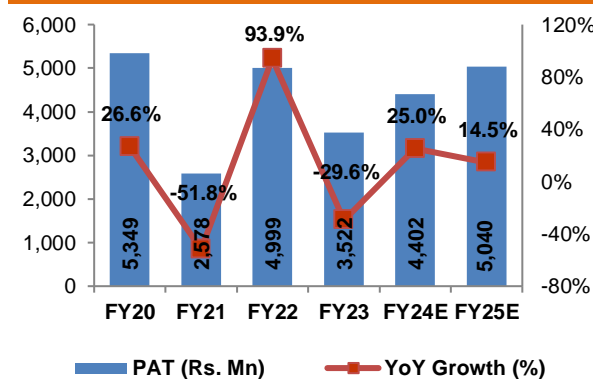
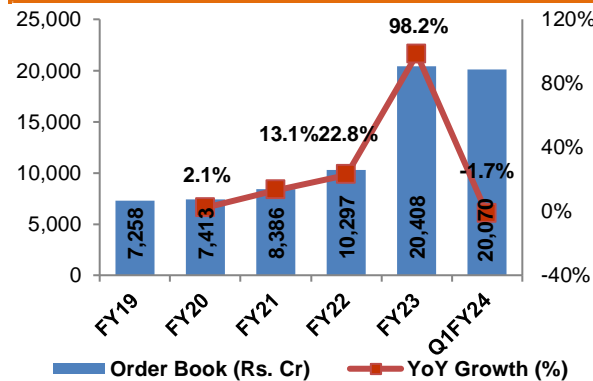


Figure 4: Orderbook Trend



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