

## Well positioned to witness strong growth...

**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.

- During FY22, BDL reported revenue of ₹ 2817 crore, which increased 47.2% YoY. EBITDA and PAT increased 110.6% and 93.9% YoY in FY22 to ₹ 726 crore and ₹ 500 crore, respectively
- Order book was at ₹ 12000 crore as of September 2022

### Q2FY23 Results:

- Revenue increased 6.1% YoY to ₹ 534.8 crore. However, revenue declined sequentially by 23.0%
- EBITDA margin improved 442 bps YoY to 17.5%. EBITDA increased 41.9% YoY to ₹ 93.9 crore
- PAT increased 82.5% YoY to ₹ 75.8 crore

**What should investors do?** We expect BDL to deliver revenue, EBITDA CAGR of 28.8%, 26.8%, respectively, in FY22-24E. PAT is likely to grow at 25.1% CAGR (FY22-24E).

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

**Target Price & Valuation:** We value BDL at ₹ 1200 on 28x P/E on FY24E EPS basis.

### Key triggers for future price performance:

- Order book at ₹ 12000 crore (3.5x TTM revenues) gives strong revenue visibility. Moreover, ₹ 20000 crore worth of orders are in the pipeline (Akash surface to air missile, medium range surface to air missiles, Mistral man portable air defence system, advanced short range air-to-air missile, etc)
- Expanding capabilities to enhance market position and competitiveness. Continuous investment in R&D and expanding infrastructure to develop new generation products
- Huge opportunity in exports (Akash SAM, ATGMs, Astra, Torpedoes) driven by rising interest from friendly countries and lower cost on high indigenisation levels

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

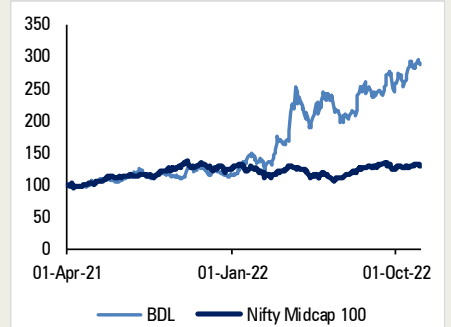
- Strong order book & healthy pipeline in defence electronics offers strong visibility; diversifying into non-defence to help improve margins
- BUY with a target price of ₹ 135/share



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	17,852
FY22 Debt (₹ Crore)	0
FY22 Cash (₹ Crore)	1,900
EV (₹ Crore)	15,952
52 Week H/L (Rs)	905/368
Equity Capital (₹ Crore)	183.3
Face Value	10

### Share Price Performance



### Shareholding Pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	74.9	74.9	74.9	74.9
FII	1.7	2.1	2.4	2.9
DII	17.4	16.4	14.6	13.0
Others	6.0	6.6	8.1	9.2

### Key risks

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

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenues	3,069	3,105	1,914	2,817	(2.8)	3,594	4,673	28.8
EBITDA	622	755	345	726	5.3	841	1,168	26.8
EBITDA margin (%)	20.3	24.3	18.0	25.8		23.4	25.0	
Net Profit	423	535	258	500	5.8	604	782	25.1
EPS (₹)	23.1	29.2	14.1	27.3		33.0	42.7	
P/E (x)	42.2	33.4	69.3	34.1		29.5	22.8	
EV/EBITDA (x)	28.1	22.8	47.3	22.0		18.7	13.3	
RoCE (%)	29.8	28.6	12.8	24.6		24.7	27.9	
RoE (%)	18.6	20.5	9.6	17.3		17.7	20.0	

## Q2FY23 Result – Key Highlights

- Revenue for the quarter increased 6.1% YoY to ₹ 534.8 crore; lower than our estimate of ₹ 611.0 crore. Sequentially, revenue declined 23%. The sequential de-growth in revenues shows muted execution during the quarter in its existing contracts
- H1FY23 revenue is up 94.4% YoY as revenue increased significantly in Q1FY23 (+440.3% YoY) on lower base
- Gross margins improved 150 bps YoY to 55.4% (better than our estimate of 50.0%). Sequentially, gross margins improved from 36.6% level seen in Q1FY22 as raw material cost was significantly higher in Q1FY22
- EBITDA margins came in at 17.5% (vs. estimate of 15.0%); improved 442 bps YoY led by lower others cost. Sequentially EBITDA margin improved significantly by 1150 bps. H1FY23 EBITDA margin was also up 592 bps YoY at 11.0%
- EBITDA increased 41.9% YoY (+123.4% QoQ) to ₹ 93.9 crore (vs. estimate of ₹ 91.6 crore). H1FY23 EBITDA was up significantly by 318.7% YoY to ₹ 135.9 crore
- PAT came in at ₹ 75.8 crore; up 82.5% YoY led by improvement in margins and high other income. Other income was at ₹ 45.0 crore (+122.2% YoY). H1FY23 PAT was up by 5.6x YoY to ₹ 115.7 crore on account of significant growth witnessed in Q1FY23
- Order book was at ~₹ 12000 crore as of September 2022 end (3.5x TTM revenues). Order inflows during H1FY23 was at ₹ 2608 crore

**Exhibit 1: Variance Analysis**

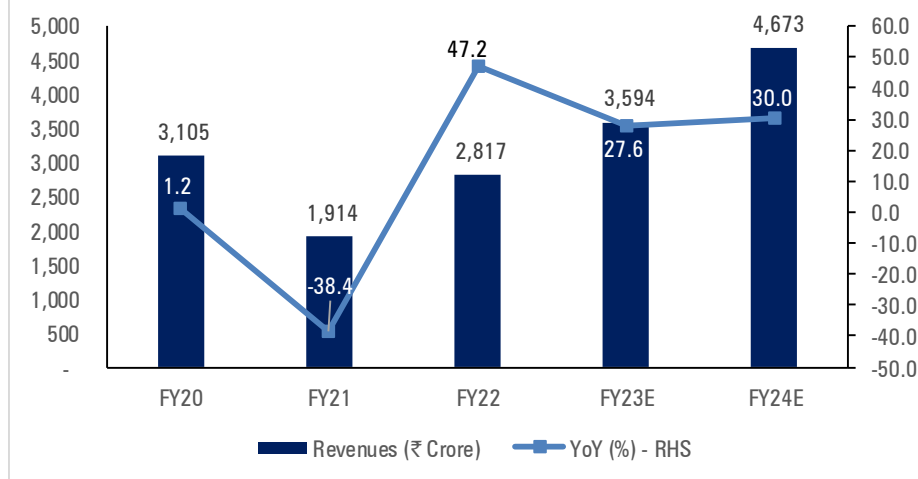
	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Operating Income	534.8	611.0	503.8	6.1	694.8	-23.0	Revenue lower than estimates on lower than expected execution
Other income	45.0	30.0	20.3	122.2	36.8	22.4	
Total Revenue	579.8	641.0	524.1	10.6	731.6	-20.7	
Raw materials costs	238.4	305.5	232.1	2.7	440.4	-45.9	
Employees Expenses	144.8	140.5	141.4	2.4	135.9	6.6	
Other Expenses	57.7	73.3	64.2	-10.1	76.5	-24.6	
Total Expenditure	440.9	519.3	437.7	0.7	652.8	-32.5	
EBITDA	93.9	91.6	66.1	41.9	42.0	123.4	
EBITDA margins (%)	17.5	15.0	13.1	442 bps	6.0	1150 bps	Margins came better than estimates on lower raw material and other cost
Interest	0.8	1.0	0.9		2.0		
Depreciation	21.3	26.0	23.7	-10.2	23.4	-8.9	
Tax	40.9	23.9	18.5	120.9	13.5	203.5	
PAT	75.8	70.7	41.6	82.5	39.9	90.2	

Source: ICICI Direct Research, Company

## Financials

### Revenues expected to grow at 29% CAGR over FY22-24E

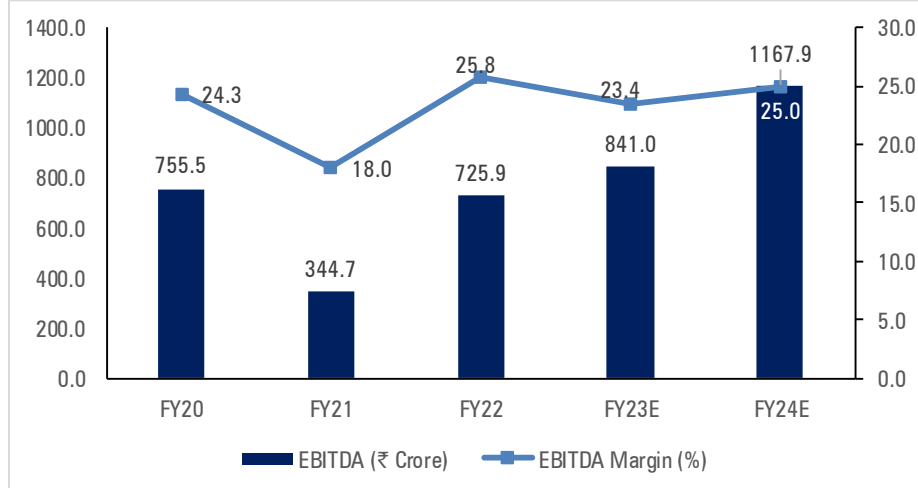
Exhibit 2: Revenue to grow at 29% CAGR on strong execution



Source: ICICI Direct Research, Company

### EBITDA margins expected to be 23-25% over FY23-24E

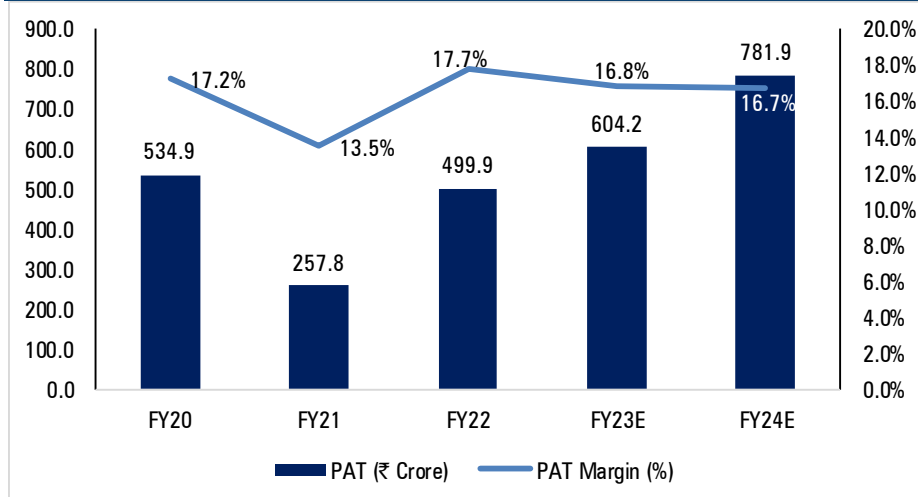
Exhibit 3: Better operating leverage to drive EBITDA at 27% CAGR over FY22-24E



Source: ICICI Direct Research, Company

### PAT margins expected to be ~17% over FY23-24E

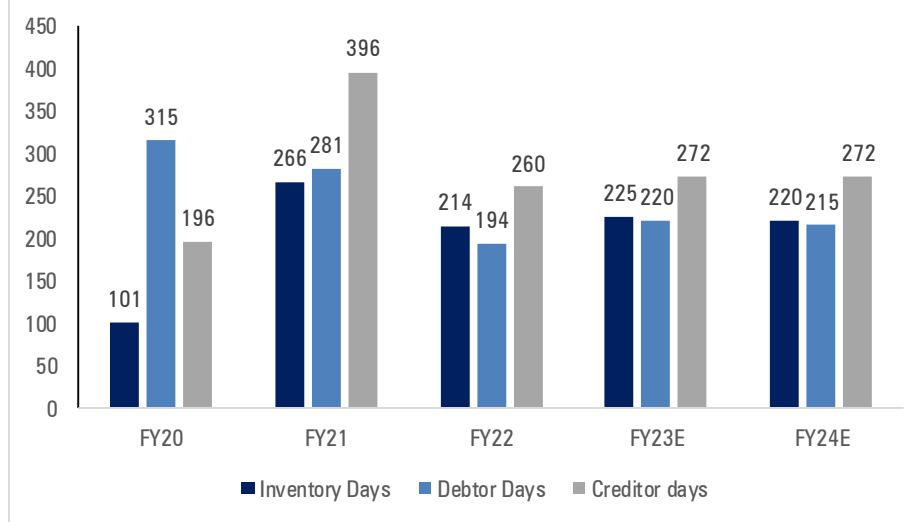
Exhibit 4: PAT likely to increase at 25% CAGR over FY22-24E



Source: ICICI Direct Research, Company

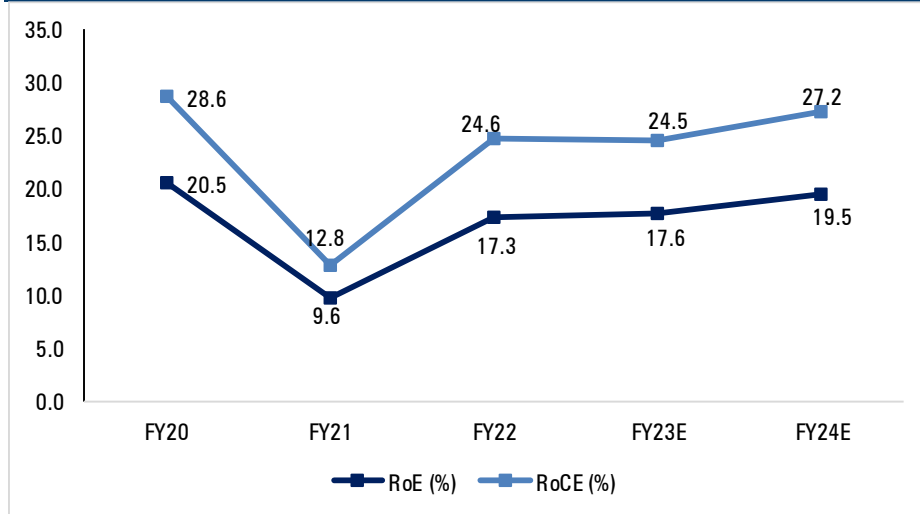
## Working capital position and return ratios

Exhibit 5: Working capital position improves significantly in FY22



Source: ICICI Direct Research, Company

Exhibit 6: Return ratios to remain better over FY23-24E



Source: ICICI Direct Research, Company

## Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,105	1,914	2,817	3,594	4,673
% Growth		(38.4)	47.2	27.6	30.0
Other income	88.1	94.6	111.2	110.0	110.0
Total Revenue	3,193	1,970	2,817	3,594	4,673
% Growth		(38.3)	43.0	27.6	30.0
Total Raw Material Costs	1,518	841	1,179	1,689	2,220
Employee Expenses	534	501	571	651	748
other expenses	298	227	342	413	537
Total Operating Expenditure	2,349	1,569	2,091	2,753	3,505
Operating Profit (EBITDA)	755	345	726	841	1,168
% Growth		(54.4)	110.6	15.9	38.9
Interest	5	4	3	4	5
PBDT	839	435	834	947	1,273
Depreciation	96	95	90	108	187
PBT before Exceptional Items	742	341	743	839	1,086
Total Tax	208	83	210	235	304
PAT before MI	535	258	500	604	782
Minority Interest	-	-	-	-	-
PAT	535	258	500	604	782
% Growth		(51.8)	93.9	20.9	29.4
EPS	29.2	14.1	27.3	33.0	42.7

Source: ICICI Direct Research

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	535	258	500	604	782
Depreciation	96	95	90	108	187
Interest	5	4	3	4	5
Cash Flow before WC changes	636	356	594	716	974
Changes in inventory	808	(540)	(257)	(561)	(601)
Changes in debtors	188	16	19	(139)	(69)
Changes in loans & Advances	0	0	0	(0)	-
Changes in other current assets	64	(107)	16	(197)	(162)
Net Increase in Current Assets	28	572	(285)	(1,429)	(1,350)
Changes in creditors	(174)	397	(190)	157	213
Changes in provisions	(32)	(96)	79	45	106
Net Inc in Current Liabilities	(606)	208	61	717	911
Net CF from Operating activities	58	1,136	370	4	535
Changes in deferred tax assets	19	7	(11)	-	-
(Purchase)/Sale of Fixed Assets	(67)	(57)	(68)	(80)	(80)
Net CF from Investing activities	435	(53)	126	446	(96)
Dividend and Dividend Tax	(175)	(170)	(183)	(220)	(286)
Net CF from Financing Activities	(201)	(186)	(158)	(223)	(291)
Net Cash flow	292	897	339	227	148
Opening Cash/Cash Equivalent	371	664	1,561	1,900	2,126
Closing Cash/ Cash Equivalent	664	1,561	1,900	2,126	2,274

Source: ICICI Direct Research

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	183.3	183.3	183.3	183.3	183.3
Reserve and Surplus	2,424	2,501	2,847	3,232	3,728
Total Shareholders fu	2,607	2,685	3,031	3,415	3,911
Other Non Current Lia	710.4	677.2	861.3	1,400.0	1,400.0
Total Debt	2	-	-	-	-
Total Liabilities	3,373	3,441	3,983	4,907	5,403
Gross Block	973	1,011	1,070	1,197	1,277
Acc: Depreciation	258	327	417	525	712
Net Block	753	743	704	672	565
Capital WIP	42	21	41	45	45
Total Fixed Assets	974	936	915	887	780
Non Current Assets	132	120	126	139	155
Inventory	857	1,397	1,654	2,216	2,817
Debtors	338	323	304	443	512
Loans and Advances	2	2	2	2	2
Other Current Assets	251	358	343	539	701
Cash	664	1,561	1,900	2,126	2,274
Total Current Assets	4,574	4,900	5,523	7,179	8,677
Current Liabilities	345	743	552	709	922
Provisions	8	36	45	45	45
Total Current Liabilitie	2,311	2,520	2,581	3,299	4,209
Net Current Assets	2,263	2,380	2,942	3,881	4,468
Total Assets	3,373	3,441	3,983	4,907	5,403

Source: ICICI Direct Research

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
EPS	29.2	14.1	27.3	33.0	42.7
Cash per Share	36.2	85.2	103.6	116.0	124.1
BV	142.2	146.5	165.3	186.3	213.4
Dividend per share	8.5	7.3	8.3	10.0	13.0
Dividend payout ratio	29%	52%	30%	30%	30%
EBITDA Margin	24.3	18.0	25.8	23.4	25.0
PAT Margin	17.2	13.5	17.7	16.8	16.7
RoE	20.5	9.6	17.3	17.7	20.0
RoCE	28.6	12.8	24.6	24.7	27.9
RoIC	33.9	22.3	56.2	56.9	59.9
EV / EBITDA	22.8	47.3	22.0	18.7	13.3
P/E	33.4	69.3	34.1	29.5	22.8
EV / Net Sales	5.5	8.5	5.7	4.4	3.3
Sales / Equity	1.2	0.7	0.9	1.1	1.2
Market Cap / Sales	5.7	9.3	6.3	5.0	3.8
Price to Book Value	6.8	6.6	5.9	5.2	4.6
Asset turnover	1.2	0.7	0.9	1.1	1.2
Debtors Turnover Rati	7.2	5.8	9.0	9.6	9.8
Creditors Turnover Ra	7.2	3.5	4.4	5.7	5.7
Debt / Equity	0.0	-	-	-	-
Current Ratio	1.7	1.9	2.2	2.6	2.6
Quick Ratio	0.7	0.6	0.6	0.8	0.8

Source: ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	2,011	2,355	Buy	282184	56.8	66.1	76.7	35.4	30.4	26.2	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,916	3,660	Buy	103845	29.5	36.7	50.5	98.9	79.4	57.7	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,592	3,011	Buy	24448	64.6	79.8	86.0	40.1	32.5	30.1	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,367	2,405	Buy	28204	26.2	38.7	53.4	90.3	61.2	44.3	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	410	515	Buy	10541	12.9	15.4	30.3	31.7	26.6	13.5	11.9	13.8	20.5	10.6	10.7	17.9
Greaves Cotton (GREAVE)	152	209	Buy	3514	0.7	3.5	3.6	214.7	43.1	42.5	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	505	520	Hold	16004	7.2	9.4	11.4	70.6	53.8	44.3	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	107	135	Buy	78215	3.2	3.8	4.5	33.4	28.2	23.8	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	640	745	Buy	8419	42.9	38.6	42.8	14.9	16.6	15.0	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,918	5,215	Buy	24314	77.0	108.7	130.3	63.9	45.2	37.7	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	2,888	3,561	Buy	21723	43.5	61.3	71.2	66.4	47.1	40.6	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	147	220	Buy	1425	7.8	9.2	12.1	18.8	16.0	12.1	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	323	365	Buy	3846	8.8	15.1	19.2	36.7	21.4	16.8	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1388	1,555	Buy	7202	18.1	22.0	30.4	76.6	63.2	45.7	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,479	2,860	Buy	82895	151.9	130.9	143.1	16.3	18.9	17.3	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,155	3,275	Buy	66857	25.5	38.9	43.7	123.9	81.2	72.2	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	819	890	Buy	1114	33.2	37.5	49.3	24.7	21.8	16.6	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	974	1,200	Buy	17852	27.3	33.0	42.7	35.7	29.5	22.8	24.6	24.7	27.9	17.3	17.7	20.0

Source: ICICI Direct Research, Company

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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