

08 August 2023

India | Equity research | Q1FY24 result review

## Bharat Dynamics

Defense

### Slow start, but prospects remain bright

Bharat Dynamics (BDL) reported loss at the EBITDA level in Q1FY24. Key points: 1) revenue was down 57% YoY as the quarter did not have certain deadline-specific orders it had last year; 2) fixed costs remained broadly stable; 3) other income surged on the back of advances (mainly for Akash 3<sup>rd</sup> and 4<sup>th</sup> regiments); and 4) orderbook as of 30th Jun'23 was at INR 202.2bn, implying orderbook/revenue (ttm) of 9.7x. Going ahead, we expect execution to pick pace. Management mentioned that the residual execution from FY23 is likely to be done by Q2FY24-end. Hence, we don't see risk to our FY24E revenue estimate of INR32bn. Maintain **BUY** with an unchanged target price of INR 1,325 based on the DCF methodology.

### An insipid beginning to FY24

BDL's Q1FY24 revenue was down 57% YoY. However, in our view YoY comparison is not tenable as, in Q1FY23 the company had to execute certain orders whose deadlines fell in that quarter. Key points: 1) residual revenue of FY23 is still not booked; management expects to book most of it in the latter part of Q2FY24; 2) orderbook as of Mar'23 end stands at INR 202.2bn, implying a robust orderbook/revenue (ttm) of 9.7x; 3) other income includes INR 842bn of interest earned on the advances received on orders, primarily Akash 3<sup>rd</sup> and 4<sup>th</sup> regiments. Going ahead, we believe execution is likely to pick pace in H2FY24 in line with previous years. Besides, the residual revenue of FY23 is also likely to flow in towards the latter part of Q2FY24. Hence, we do not perceive any risk to our FY24E revenue estimate of INR32bn at this stage.

### Firm prospects

DRDO has completed the developmental and joint user trials for HELINA and Dhruvastra ATGMs ([Link](#)). With the trials now concluded, we believe, the technology is likely to be transferred to one of the DPSUs (most likely BDL). Both HELINA and Dhruvastra missiles are guided by an advanced imaging infra-red seeker, capable of defeating armoured targets, including tanks at ranges between 7-8km. Earlier, in Jan'23, the DAC granted AoN for procurement of HELINA ATGMs, launchers and associated support equipment, which will be integrated with the Advanced Light Helicopter (ALH). We perceive this to be a positive for BDL.

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	28,174	24,894	32,000	41,100
EBITDA	7,261	4,082	5,876	8,608
EBITDA Margin (%)	25.8	16.4	18.4	20.9
Net Profit	5,335	3,522	4,930	7,091
EPS (Rs)	29.1	19.2	26.9	38.7
EPS % Chg YoY	107.0	(34.0)	40.0	43.8
P/E (x)	39.2	59.5	42.5	29.5
EV/EBITDA (x)	26.2	41.8	27.4	17.3
RoCE (%)	16.4	8.1	11.2	14.7
RoE (%)	19.2	11.8	14.6	18.1

#### Amit Dixit

amit.dixit@icicisecurities.com  
+91 22 6807 7289

#### Mohit Lohia

mohit.lohia@icicisecurities.com

#### Prithish Urumkar

Prithish.urumkar@icicisecurities.com

#### Market Data

Market Cap (INR)	209bn
Market Cap (USD)	2,530mn
Bloomberg Code	BDL IN
Reuters Code	BARA BO
52-week Range (INR)	1,278 /785
Free Float (%)	25.0
ADTV-3M (mn) (USD)	11.5

Price Performance (%)	3m	6m	12m
Absolute	12.2	29.7	39.8
Relative to Sensex	8.8	10.4	14.4

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

**Note** - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

#### Previous Reports

15-06-2023: [Company Update](#)

26-05-2023: [Q4FY23 results review](#)

## Outlook: One quarter does not eclipse the overall prospects

Slow execution in Q1FY24 does not change our view on BDL as it is in line with prior years' trend. Besides, we perceive that the management has met almost 80-85% of the internal revenue target for Q1FY24. Going ahead, we believe the government is targeting development of an effective missile system and rockets as an active deterrence along the border. The ongoing Russia-Ukraine skirmish has demonstrated the importance of ATGMs – for both air and land modes. Furthermore, the integration of indigenous weapons on Rafale will likely boost the export potential as well. Already, export orders constitute more than 10% of BDL's orderbook and we believe the opportunity is going to expand further. Maintain **BUY** on BDL with an unchanged target price of INR 1,325 based on the DCF methodology.

### Exhibit 1: Bharat Dynamics Q1FY24 result review

(INR)	Q1FY24	Q1FY23	% Chg YoY	Q4FY23	% Chg QoQ	FY23	FY22	% Chg YoY
<b>Sales</b>	<b>2,957</b>	<b>6,865</b>	(56.9)	<b>7,968</b>	(62.9)	<b>24,894</b>	<b>28,174</b>	(11.6)
Other operating income	20	83		15		0	0	
<b>Total Sales</b>	<b>2,977</b>	<b>6,948</b>	(57.2)	<b>7,983</b>	(62.7)	<b>24,894</b>	<b>28,174</b>	(11.6)
Cost of materials	1,774	6,055	(70.7)	2,432	(27.0)	12,103	12,634	(4.2)
CWIP	(531)	(1,651)	(67.8)	1,299	(140.9)	(190)	(844)	(77.4)
Gross Margin	1,734	2,544	(31.8)	4,252	(59.2)	12,981	16,384	(20.8)
(%)	58	37	59.1	53	9.4	52	58	(10.3)
Employee Costs	1,353	1,359	(0.4)	1,343	0.8	5,325	5,707	(6.7)
(%)	45	20	132.5	17	170.2	21	20	5.6
Other Expenses	708	765	(7.5)	1,074	(34.1)	3,574	3,417	4.6
(%)	24	11	115.8	13	76.7	14	12	18.4
Total Expense	3,304	6,528	(49.4)	6,148	(46.3)	20,812	20,913	(0.5)
<b>EBITDA</b>	<b>(327)</b>	<b>420</b>	(177.8)	<b>1,834</b>	(117.8)	<b>4,082</b>	<b>7,261</b>	(43.8)
<b>Margin (%)</b>	<b>(11)</b>	<b>6</b>		<b>23</b>		<b>16</b>	<b>26</b>	
Other Income	1,074	368	192.3	372	189.1	1,554	1,112	39.7
Interest	8	20		8		45	34	
Depreciation	169	234		139		773	904	
Exceptional Items	-	-		-		-	-	
<b>PBT</b>	<b>571</b>	<b>533</b>	7.0	<b>2,058</b>	(72.3)	<b>4,818</b>	<b>7,435</b>	(35.2)
Tax	153	135		531		1,296	2,100	
<b>PAT</b>	<b>418</b>	<b>399</b>	4.8	<b>1,528</b>	(72.7)	<b>3,522</b>	<b>5,335</b>	(34.0)

Source: I-Sec research, Company data

### Exhibit 2: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	74.9	74.9	74.9
Institutional investors	15.6	16.9	17.2
MFs and others	8.7	8.8	8.5
FIs/Banks	0.0	0.0	0.0
Insurance	3.6	5.2	5.2
FIIIs	3.3	2.9	3.5
Others	9.5	8.2	7.9

Source: Bloomberg

### Exhibit 3: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>28,174</b>	<b>24,894</b>	<b>32,000</b>	<b>41,100</b>
Operating Expenses	20,913	20,812	26,124	32,492
<b>EBITDA</b>	<b>7,261</b>	<b>4,082</b>	<b>5,876</b>	<b>8,608</b>
EBITDA Margin (%)	25.8	16.4	18.4	20.9
Depreciation & Amortization	904	773	845	900
EBIT	6,357	3,309	5,031	7,708
Interest expenditure	-	-	-	-
Other Non-operating Income	1,112	1,554	1,605	1,817
<b>Recurring PBT</b>	<b>7,435</b>	<b>4,818</b>	<b>6,591</b>	<b>9,480</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	2,100	1,296	1,661	2,389
PAT	5,335	3,522	4,930	7,091
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>5,335</b>	<b>3,522</b>	<b>4,930</b>	<b>7,091</b>
<b>Net Income (Adjusted)</b>	<b>5,335</b>	<b>3,522</b>	<b>4,930</b>	<b>7,091</b>

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	55,232	76,001	89,664	1,08,040
of which cash & cash eqv.	18,995	38,589	48,650	60,579
Total Current Liabilities & Provisions	26,257	18,360	25,726	35,590
<b>Net Current Assets</b>	<b>28,975</b>	<b>57,642</b>	<b>63,938</b>	<b>72,450</b>
Investments	-	-	-	-
Net Fixed Assets	7,052	7,011	7,166	7,266
ROU Assets	-	-	-	-
Capital Work-in-Progress	407	743	743	743
Total Intangible Assets	1,127	1,074	1,074	1,074
Other assets	1,248	1,330	1,330	1,330
Deferred Tax assests	571	564	564	564
<b>Total Assets</b>	<b>39,382</b>	<b>68,365</b>	<b>74,816</b>	<b>83,429</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
provisions	-	-	-	-
other Liabilities	9,076	36,250	36,250	36,250
Equity Share Capital	1,833	1,833	1,833	1,833
Reserves & Surplus	28,473	30,282	36,734	45,346
<b>Total Net Worth</b>	<b>30,306</b>	<b>32,115</b>	<b>38,566</b>	<b>47,179</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>39,382</b>	<b>68,365</b>	<b>74,816</b>	<b>83,429</b>

Source Company data, I-Sec research

### Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	5,348	4,616	7,983	2,977
% growth (YoY)	6.1	(42.6)	(42.2)	(57.2)
EBITDA	939	889	1,834	-327
Margin %	17.5	19.3	23.0	(11.0)
Other Income	450	365	372	1074
Extraordinaries	-	-	-	-
Adjusted Net Profit	758	837	1528	418

Source Company data, I-Sec research

### Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>5,290</b>	<b>21,601</b>	<b>9,585</b>	<b>11,452</b>
Working Capital Changes	(989)	19,213	3,765	3,416
Capital Commitments	(1,020)	(1,083)	(1,000)	(1,000)
<b>Free Cashflow</b>	<b>4,270</b>	<b>20,518</b>	<b>8,585</b>	<b>10,452</b>
<b>Other investing cashflow</b>	<b>(4,710)</b>	<b>(10,628)</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(5,730)	(11,710)	(1,000)	(1,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(20)	(31)	(45)	(45)
Inc (Dec) in Borrowings	(12)	(13)	-	-
Dividend paid	(1,453)	(1,669)	1,521	1,521
Others	-	-	-	-
Cash flow from Financing Activities	(1,485)	(1,714)	1,476	1,476
<b>Chg. in Cash &amp; Bank balance</b>	<b>(1,925)</b>	<b>8,176</b>	<b>10,062</b>	<b>11,929</b>
Closing cash & balance	2,644	10,827	48,650	60,579

Source Company data, I-Sec research

### Exhibit 8: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	29.1	19.2	26.9	38.7
Adjusted EPS (Diluted)	29.1	19.2	26.9	38.7
Cash EPS	34.0	23.4	31.5	43.6
Dividend per share (DPS)	8.3	8.3	8.3	8.3
Book Value per share (BV)	165.4	175.2	210.4	257.4
Dividend Payout (%)	28.5	43.2	30.9	21.5
<b>Growth (%)</b>				
Net Sales	47.2	(11.6)	28.5	28.4
EBITDA	110.6	(43.8)	43.9	46.5
EPS (INR)	107.0	(34.0)	40.0	43.8
<b>Valuation Ratios (x)</b>				
P/E	39.2	59.5	42.5	29.5
P/CEPS	33.6	48.8	36.3	26.2
P/BV	6.9	6.5	5.4	4.4
EV / EBITDA	26.2	41.8	27.4	17.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	58.2	52.1	47.0	46.5
EBITDA Margins (%)	25.8	16.4	18.4	20.9
Effective Tax Rate (%)	28.2	26.9	25.2	25.2
Net Profit Margins (%)	18.9	14.1	15.4	17.3
Net Debt / Equity (x)	(0.6)	(1.2)	(1.3)	(1.3)
Net Debt / EBITDA (x)	(2.6)	(9.5)	(8.3)	(7.0)
Fixed Asset Turnover (x)	2.3	1.9	2.4	2.8
Inventory Turnover Days	231	276	274	303
Receivables Days	43	28	31	34
Payables Days	-	-	-	-
<b>Profitability Ratios</b>				
RoCE (%)	16.4	8.1	11.2	14.7
RoE (%)	19.2	11.8	14.6	18.1
RoIC (%)	32.6	45.3	(215.1)	(57.7)

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

## ANALYST CERTIFICATION

I/We, Amit Dixit, PGDM, B.Tech; Mohit Lohia, CA; Prithvi Urumkar, MBATech (Finance) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

---

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

---