

Weak performance but outlook remains strong...

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 ₹ 11906 crore as of November 2022 end

Q3FY23 Results: Weak execution.

- Revenue declined 42.6% YoY and 13.7% QoQ to ₹ 461.6 crore; lower than estimates due to weak execution
- EBITDA margin contracted by 1674 bps YoY to 19.3% due to significant rise in others cost. EBITDA declined 69.3% YoY to ₹ 88.9 crore
- PAT declined 61.1% YoY to ₹ 83.7 crore

What should investors do? We expect BDL to deliver revenue, EBITDA CAGR of 20.4%, 19.9%, respectively, in FY22-25E. PAT is likely to grow at 23.5% CAGR (FY22-25E).

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

Target Price & Valuation: We value BDL at ₹ 1010 on 20x P/E on FY25E EPS basis.

Key triggers for future price performance:

- Order book at ₹ 11906 crore (3.8x 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 ₹ 130/share

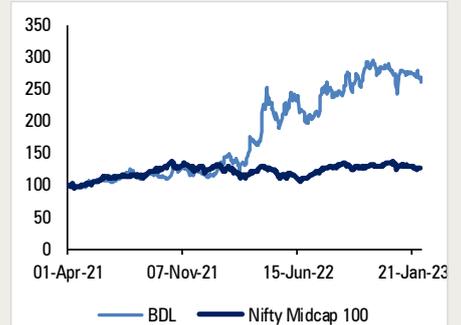


भारत डायनामिक्स लिमिटेड
BHARAT DYNAMICS LIMITED

Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	15,616
FY22 Debt (₹ Crore)	0
FY22 Cash (₹ Crore)	1,891
EV (₹ Crore)	13,724
52 Week H/L (Rs)	1026 / 408
Equity Capital (₹ Crore)	183.3
Face Value	10

Share Price Performance



Shareholding Pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	74.9	74.9	74.9	74.9
FII	2.1	2.4	2.9	3.2
DII	16.4	14.6	13.0	12.4
Others	6.6	8.1	9.2	9.4

Key risks

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

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Key Financial Summary

(₹ crore)	FY20	FY21	FY22	4 Year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Revenues	3,105	1,914	2,817	(2.8)	3,186	4,112	4,914	20.4
EBITDA	755	345	726	5.3	747	1,038	1,253	19.9
EBITDA margin (%)	24.3	18.0	25.8		23.4	25.2	25.5	
Net Profit	535	258	492	5.2	586	779	925	23.5
EPS (₹)	29.2	14.1	26.8		32.0	42.5	50.5	
P/E (x)	29.2	60.6	30.3		26.6	20.1	16.9	
EV/EBITDA (x)	19.8	40.8	18.9		17.8	12.7	10.3	
RoCE (%)	28.6	12.8	24.7		24.2	28.0	28.5	
RoE (%)	20.5	9.6	17.0		17.3	20.1	20.5	

Q3FY23 Result – Key Highlights

- Revenue for the quarter declined 42.6% YoY to ₹ 461.6 crore; significantly lower than our estimate of ₹ 862.6 crore. Sequentially, revenue declined 13.7%. The de-growth in revenue both YoY and QoQ shows muted execution during the quarter in its existing contracts. 9MFY23 revenue was up 17.8% YoY as the revenue was significantly up during Q1FY23 (+440.3% YoY) on lower base
- Gross margins improved 619 bps YoY and 1436 bps QoQ to 69.8% as raw material cost declined considerably both YoY and QoQ. EBITDA margins came in at 19.3% (vs. estimate of 27%); down 1674 bps YoY led by significantly higher others cost (25.1% of sales in Q3FY23 vs. 8.6% of sales in Q3FY22). Sequentially, EBITDA margin improved 171 bps. 9MFY23 EBITDA margin was also down 911 bps YoY at 13.3%
- EBITDA declined 69.3% YoY (-5.3% QoQ) to ₹ 88.9 crore (vs. estimate of ₹ 232.9 crore). The 9MFY23 EBITDA was down significantly by 30.1% YoY to ₹ 224.8 crore
- PAT was at ₹ 83.7 crore, down 61.1% YoY led by a decline in revenues and contraction in margins. 9MFY23 PAT was down 15.5% YoY to ₹ 199.4 crore
- Order backlog was at ₹ 11906 crore as of November 2022 end (3.8x TTM revenues)

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Operating Income	461.6	862.6	803.7	-42.6	534.8	-13.7	Revenue lower than estimates on lower than expected execution
Other income	36.5	27.8	34.7	5.2	45.0	-19.0	
Total Revenue	498.0	890.4	838.4	-40.6	579.8	-14.1	
Raw materials costs	139.5	388.2	292.6	-52.3	238.4	-41.5	
Employees Expenses	117.4	163.9	152.7	-23.1	144.8	-18.9	
Other Expenses	115.8	77.6	69.1	67.5	57.7	100.5	
Total Expenditure	372.7	629.7	514.4	-27.6	440.9	-15.5	
EBITDA	88.9	232.9	289.3	-69.3	93.9	-5.3	
EBITDA margins (%)	19.3	27.0	36.0	-1674 bps	17.5	171 bps	Margins also came lower than estimates on higher other cost
Interest	0.8	1.0	0.8		0.8		
Depreciation	18.6	27.0	24.6	-24.3	21.3	-12.7	
Tax	22.2	60.5	85.3	-74.0	40.9	-45.8	
PAT	83.7	172.2	215.5	-61.1	75.8	10.5	

Source: ICICI Direct Research, Company

Exhibit 2: Change in estimates

	FY22		FY23E		FY24E			FY25E
	Actual	Old	New	% Change	Old	New	% Change	New
(₹ Crore)								
Revenue	2,817	3,594	3,186	-11.4	4,673	4,112	-12.0	4,914
EBITDA	726	841	747	-11.2	1,168	1,038	-11.2	1,253
EBITDA Margin (%)	25.8	23.4	23.4	5 bps	25.0	25.2	24 bps	25.5
PAT	492	604	586	-3.0	782	779	-0.4	925
EPS (₹)	26.8	33.0	32.0	-3.0	42.7	42.5	-0.4	50.5

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	2,817	3,186	4,112	4,914
Other operating income	-	-	-	-
Revenue	2,817	3,186	4,112	4,914
% Growth	47.2	13.1	29.1	19.5
Other income	111.2	158.0	160.0	170.0
Total Revenue	2,817	3,186	4,112	4,914
% Growth	43.0	13.1	29.1	19.5
Total Raw Material Costs	1,179	1,338	1,727	2,064
Employee Expenses	571	559	643	752
other expenses	342	542	704	845
Total Operating Expenditure	2,091	2,439	3,074	3,661
Operating Profit (EBITDA)	726	747	1,038	1,253
% Growth	110.6	2.9	38.9	20.7
Interest	3	5	5	5
PBDT	834	900	1,193	1,418
Depreciation	90	86	111	133
PBT before Exceptional Items	743	814	1,081	1,285
Total Tax	210	228	303	360
PAT before MI	500	586	779	925
Minority Interest	-	-	-	-
PAT	492	586	779	925
% Growth	90.7	19.3	32.8	18.8
EPS	26.8	32.0	42.5	50.5

Source: ICICI Direct Research

Exhibit 4: Cash Flow Statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	492	586	779	925
Depreciation	90	86	111	133
Interest	3	5	5	5
Cash Flow before WC changes	585	677	895	1,063
Changes in inventory	(257)	(309)	(514)	(484)
Changes in debtors	19	(89)	(58)	(88)
Changes in loans & Advances	0	(0)	-	-
Changes in other current assets	16	(135)	(139)	(120)
Net Increase in Current Assets	(285)	(870)	(1,155)	(1,077)
Changes in creditors	(190)	76	183	158
Changes in provisions	79	5	91	79
Net Inc in Current Liabilities	61	373	781	677
Net CF from Operating activities	362	180	521	663
Changes in deferred tax assets	(11)	-	-	-
(Purchase)/Sale of Fixed Assets	(68)	(80)	(80)	(80)
Net CF from Investing activities	126	452	(94)	(92)
Dividend and Dividend Tax	(183)	(220)	(286)	(286)
Net CF from Financing Activities	(158)	(224)	(291)	(291)
Net Cash flow	330	408	136	280
Opening Cash/Cash Equivalent	1,561	1,891	2,299	2,435
Closing Cash/ Cash Equivalent	1,891	2,299	2,435	2,716

Source: ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	183.3	183.3	183.3	183.3
Reserve and Surplus	2,839	3,206	3,699	4,338
Total Shareholders funds	3,022	3,389	3,882	4,521
Other Non Current Liabilities	861.3	1,400.0	1,400.0	1,400.0
Total Debt	-	-	-	-
Total Liabilities	3,974	4,880	5,373	6,013
Gross Block	1,070	1,197	1,277	1,357
Acc: Depreciation	417	503	614	747
Net Block	704	694	663	610
Capital WIP	41	45	45	45
Total Fixed Assets	915	909	878	825
Non Current Assets	126	133	147	159
Inventory	1,654	1,964	2,478	2,962
Debtors	304	393	451	539
Loans and Advances	2	2	2	2
Other Current Assets	343	478	617	737
Cash	1,891	2,299	2,435	2,716
Total Current Assets	5,515	6,793	8,084	9,441
Current Liabilities	552	628	811	969
Provisions	45	45	45	45
Total Current Liabilities	2,581	2,954	3,735	4,412
Net Current Assets	2,934	3,839	4,349	5,029
Total Assets	3,974	4,880	5,373	6,013

Source: ICICI Direct Research

Exhibit 6: Ratio Analysis				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
EPS	26.8	32.0	42.5	50.5
Cash per Share	103.2	125.4	132.9	148.2
BV	164.9	184.9	211.8	246.7
Dividend per share	8.3	10.0	13.0	13.0
Dividend payout ratio	31%	31%	31%	26%
EBITDA Margin	25.8	23.4	25.2	25.5
PAT Margin	17.4	18.4	18.9	18.8
RoE	17.0	17.3	20.1	20.5
RoCE	24.7	24.2	28.0	28.5
RoIC	56.2	60.6	64.0	62.0
EV / EBITDA	18.9	17.8	12.7	10.3
P/E	30.3	26.6	20.1	16.9
EV / Net Sales	4.9	4.2	3.2	2.6
Sales / Equity	0.9	0.9	1.1	1.1
Market Cap / Sales	5.5	4.9	3.8	3.2
Price to Book Value	5.2	4.6	4.0	3.5
Asset turnover	0.9	0.9	1.1	1.1
Debtors Turnover Ratio	9.0	9.1	9.8	9.9
Creditors Turnover Ratio	4.4	5.4	5.7	5.5
Debt / Equity	-	-	-	-
Current Ratio	2.2	2.6	2.6	2.6
Quick Ratio	0.6	0.8	0.8	0.8

Source: ICICI Direct Research

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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