

04 November 2023

India | Equity Research | Q2FY24 result review

Bharat Dynamics

Defence

Steady execution; see no risk to our FY24E revenue guidance of INR 32bn

Bharat Dynamics' (BDL) Q2FY24 performance was resilient led by pick-up in execution. Key points: 1) In our view, profitability was aided by execution of ATGMs – most of which have high indigenous content; 2) revenue growth was partially aided by making up of some shortfall in FY23; and 3) other income was aided by customer advances received post ordering of Akash 3rd and 4th regiment. Going ahead, we expect execution to pick up further aided by surface to air missiles, Astra Mk-1 and underwater weapons such as torpedoes. At this stage, we see no risk to our FY24E revenue estimate of INR 32bn. However, we will keep a close tab on the ongoing Israel-Palestine war that might delay the supply of sub-components for MRSAMs. We maintain BUY on BDL with an unchanged TP of INR 1,325 (DCF based).

Performance improves QoQ, partially aided by backlog

BDL's posted an impressive Q2FY24, partially led by booking of some lagged revenue of FY23. Key points: 1) EBITDA rose 42.8% YoY at INR 1.3bn and EBITDA margin improved 422bps to 21.8%; 2) other expenses rose 41% YoY mainly due to repairs and provisions; 3) billed receivables went up; however, this was offset by a decline in unbilled receivables; 4) other income rose 74% YoY at INR 783mn, mainly due to advances received at end-FY23; and 5) our analysis suggests that order book at end-Sep'23 stood at INR 200bn, implying a robust book/bill of 9.3x. Going ahead, we expect the execution to pick up in H2FY24E, boosted by supply to surface to air missiles, torpedoes and ATGMs.

See no risks to our FY24E revenue as of now

In Aug'23, the successful maiden launch of indigenously developed Astra Air-to-Air (A2A) BVR missile from Tejas fighter jet was done. The defence ministry has already placed an order for 248 Astra Mk-1 missiles in Mar-22. We expect the execution to happen from H2FY24E. BDL has also received an order from the IAF for supply of surface to air missile worth INR 2.9bn. We expect this to be executed within the next 12-15 months. In Sep'23, Defence Acquisition Council (DAC) accorded Acceptance of Necessity (AON) to Dhruvastra short range air-to-surface missile, for use with the indigenously built ALH Mk-IV helicopters. We expect this order to be worth INR 5-6bn, when awarded. Besides, we expect the balance backlog of FY23 to be booked in H2FY24E. Hence, at the moment, there is no risk to our FY24E revenue estimate of INR 32bn.

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)	35.7	54.0	38.6	26.8
EV/EBITDA (x)	23.6	37.2	24.1	15.1
RoCE (%)	16.4	8.1	11.2	14.7
RoE (%)	19.2	11.8	14.6	18.1

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Market Data

Market Cap (INR)	190bn
Market Cap (USD)	2,286mn
Bloomberg Code	BDL IN
Reuters Code	BARA BO
52-week Range (INR)	1,278 /787
Free Float (%)	25.0
ADTV-3M (mn) (USD)	8.0

Price Performance (%)	3m	6m	12m
Absolute	(12.7)	0.4	7.5
Relative to Sensex	(11.6)	(5.9)	0.3

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

08-08-2023: [Q1FY24 results review](#)

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

Outlook: Sound prospects ahead; maintain BUY

We have a positive outlook on BDL's robust orderbook. Besides, execution is likely to pick up in H2FY24E. Furthermore, the trials for AMOGHA ATGM have been successful and we expect RFP soon. Among big ticket orders, we await orders of MRSAM for Army and Navy in the next 6-9 months. We maintain BUY on BDL with an unchanged TP of INR 1,325 (DCF-based methodology).

Key Risks

- Delay in receipt of components and parts due to ongoing Israel – Palestine skirmish
- Execution delay in key platforms such as SAMs & Torpedoes
- Higher LD provisioning

Exhibit 1: BDL Q2FY24 result review

(INR mn)	Q2FY24	Q2FY23	% Chg YoY	Q1FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Sales	6,100	5,291	15.3	2,957	106.3	24,894	28,174	(11.6)
Other operating income	58	57		20		0	0	
Total Sales	6,158	5,348	15.2	2,977	106.8	24,894	28,174	(11.6)
Cost of materials	1,795	2,103	(14.6)	1,774	1.2	12,103	12,634	(4.2)
CWIP	919	281	227.2	(531)	(273.0)	(190)	(844)	(77.4)
Gross Margin	3,444	2,964	16.2	1,734	98.6	12,981	16,384	(20.8)
(%)	56	55	0.9	58	(4.0)	52	58	(10.3)
Employee Costs	1,292	1,448	(10.8)	1,353	(4.5)	5,325	5,707	(6.7)
(%)	21	27	(22.5)	45	(53.9)	21	20	5.6
Other Expenses	811	577	40.6	708	14.6	3,574	3,417	4.6
(%)	13	11	22.1	24	(44.6)	14	12	18.4
Total Expense	4,818	4,409	9.3	3,304	45.8	20,812	20,913	(0.5)
EBITDA	1,340	939	42.8	(327)	(509.9)	4,082	7,261	(43.8)
Margin (%)	22	18		(11)		16	26	
Other Income	783	450	74.0	1,074	(27.1)	1,554	1,112	39.7
Interest	8	8		8		45	34	
Depreciation	174	213		169		773	904	
Exceptional Items	-	-		-		-	-	
PBT	1,941	1,167	66.3	571	240.1	4,818	7,435	(35.2)
Tax	470	409		153		1,296	2,100	
PAT	1,471	758	94.0	418	252.3	3,522	5,335	(34.0)

Source: Company data, I-Sec research

Exhibit 2: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	74.9	74.9	74.9
Institutional investors	16.9	17.2	15.9
MFs and others	8.8	8.5	8.4
FIs/Banks	0.0	0.0	0.0
Insurance	5.2	5.2	4.3
FII	2.9	3.5	3.2
Others	8.2	7.9	9.2

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	28,174	24,894	32,000	41,100
Operating Expenses	20,913	20,812	26,124	32,492
EBITDA	7,261	4,082	5,876	8,608
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
Recurring PBT	7,435	4,818	6,591	9,480
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,100	1,296	1,661	2,389
PAT	5,335	3,522	4,930	7,091
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	5,335	3,522	4,930	7,091
Net Income (Adjusted)	5,335	3,522	4,930	7,091

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
Net Current Assets	28,975	57,642	63,938	72,450
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 assets	571	564	564	564
Total Assets	39,382	68,364	74,816	83,429
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
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
Total Net Worth	30,306	32,115	38,566	47,179
Minority Interest	-	-	-	-
Total Liabilities	39,382	68,364	74,816	83,429

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	4,616	7,983	2,977	6,158
% growth (YOY)	(42.6)	(42.2)	(57.2)	15.2
EBITDA	889	1,834	-327	1,340
Margin %	19.3	23.0	(11.0)	21.8
Other Income	365	372	1074	783
Extraordinaries	-	-	-	-
Adjusted Net Profit	837	1528	418	1471

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	5,290	21,601	9,585	11,452
Working Capital Changes	(989)	19,213	3,765	3,416
Capital Commitments	(1,020)	(1,083)	(1,000)	(1,000)
Free Cashflow	4,270	20,518	8,585	10,452
Other investing cashflow	(4,710)	(10,628)	-	-
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
Chg. in Cash & Bank balance	(1,925)	8,176	10,062	11,929
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
Per Share Data (INR)				
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
Growth (%)				
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
Valuation Ratios (x)				
P/E	35.7	54.0	38.6	26.8
P/CEPS	30.5	44.3	33.0	23.8
P/BV	6.3	5.9	4.9	4.0
EV / EBITDA	23.6	37.2	24.1	15.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
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	-	-	-	-
Profitability Ratios				
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

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