Bharat Dynamics Limited

Issue Snapshot:

Issue Open: Mar 13 – Mar 15, 2018

Price Band: Rs 413 – 428 (A discount of Rs 10 per eq sh offered to retail and employees.)

Issue Size: 22,451,953 Equity Shares (Entirely Offer for sale including Employee reservation of 458,203 eq sh)

Offer Size: Rs927.27cr – 960.94cr *

QIB	Upto	10,996,874 eq sh
Non Institutional	atleast	3,299,063 eq sh
Retail	atleast	7,697,813 eq sh
Employee	Upto	458,203 eq sh

Face Value: Rs 10

Book value: Rs 177.94 (Sept 30, 2017)

Bid size: - 35 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs 183.28 cr

Post issue Equity: Rs 183.28 cr

Listing: BSE & NSE

Book Running Lead Manager: SBI Capital Markets Limited, IDBI Capital Limited, Yes Securities Ltd

Registrar to issue: Alankit Assignments Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	100.00	87.75
Public & Others	0.00	12.25
Total	**100.0**	**100.0**

Source for this Note: RHP

* =assuming issue priced at upper band

Background & Operations:

Bharat Dynamics Ltd (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), underwater weapons, launchers, countermeasures and test equipment. It is the sole manufacturer in India for SAMs, torpedoes, ATGMs and also the sole supplier of SAMs and ATGMs to the Indian armed forces. Additionally, it is engaged in the business of refurbishment and life extension of missiles manufactured. It is also the co-development partner with the DRDO for the next generation of ATGMs and SAMs.

BDL is a wholly-owned GoI company headquartered in Hyderabad and under the administrative control of the MoD, GoI and were conferred the 'Mini-ratna (Category -1)' status by the Department of Public Enterprises, GoI. Founded in 1970, it has over four decades of experience in manufacturing missiles and countermeasures and its allied equipments.

BDL operates in an environment characterised by both increasing complexity in factors influencing national security and continuing economic challenges in India and globally. A significant component of business outlook in this environment is to focus on execution, improving standards and quality and predictability of the delivery of products to the Indian Army. It also continue to invest in technologies to fulfil the requirements of the Indian armed forces and also invest in people so that it has the necessary technical skills to succeed without limiting its ability. Currently BDL has three manufacturing facilities located in Hyderabad, Bhanur and Vishakhapatnam. Its Hyderabad manufacturing unit is engaged in the manufacture of SAMs, Milan 2T ATGMs, countermeasures, launchers and test equipment. Bhanur unit is engaged in the manufacture of the Konkurs - M ATGMs, the INVAR (3 UBK 20) ATGMs, launchers and spares and Vishakapatnam unit is engaged in the manufacture of light weight torpedoes, the C-303 anti-torpedo system, countermeasures and spares.

BDL is also in the process of setting up two additional manufacturing facilities at Ibrahimpatnam (near Hyderabad) and Amravati in Maharashtra which shall be used to manufacture SAMs and Very Short Range Air Defence Missiles (VSHORADMs) respectively. It has been awarded various prestigious awards such as Raksha Mantri's institutional award for "Excellence" in performance for the year 2014 – 15 and the group / individual award in the "Innovation Category" for the year 2014 -15, in recognition of its consistent growth and adaptation and the PSE Excellence Award – 2015 by the Indian Chamber of Commerce in the Miniratna category for operational performance excellence. BDL's current order book as of January 31, 2018 is Rs 105,430mn.

Objects of Issue:

The objects of the Offer are (i) to carry out the disinvestment of 22,451,953 Equity Shares by the Selling Shareholder constituting 12.25% of BDL's pre-Offer Equity Share capital of the Company; and (ii) to achieve the benefits of listing the Equity Shares on the Stock Exchanges. BDL will not receive any proceeds from the Offer and all the proceeds will go to the Selling Shareholder.

Competitive strengths

Modern facilities and infrastructure to deliver quality products in a timely manner: The infrastructure at BDL's manufacturing facilities combined with its vast expertise enables to cater to the needs of the Indian armed forces in a timely manner. Its manufacturing facilities are equipped with robotic welding machines, four axis machines, flow forming machines, vaccum furnace for heat treatment, automated electroplating shop, 3D – coordinating measuring machine, climatic chambers and 800G acceleration measuring fixture. Its Hyderabad manufacturing unit has been automated for material handling and grain loading. of SAMs. Further, Vishakhapatnam manufacturing facility is exclusively engaged in the manufacture of torpedoes.

Increase in indigenisation of products and implementation of the "Make in India" policy: In order to give an impetus to the GoI's "Make in India" policy, BDL had implemented a vendor development policy in 2015. The implementation of this policy has enabled to improve supply chain management in order to meet long term commitments to its primary customer, the MoD and ensured transparency in identifying and developing new vendors. BDL identify technically qualified vendors and suppliers and place purchase orders to ensure timely delivery of materials. It has also published a list of items under import substitutions category which are to be supplied by indigenous vendors. It has tie-ps with various domestic and international Original Equipment Manufacturers (OEMs) for the development of its existing and future products. It has achieved indigenisation of upto 75 – 90% of the Konkurs-M ATGM and Milan 2T ATGM. It is constantly evaluating partnerships for transfer of technology to increase the indigenous content of its products. Increase in indigenisation will enable the company to reduce its reliance on imports and the cost of products.

Quality control of products: BDL's products are primarily single shot devices which calls for the highest standards of reliability. All its manufacturing facilities has ISO 14001:2004 certifications from TUV India Private Limited. All of BDL's products undergo rigorous trials by the Indian armed forces prior to their induction and proof firing post their induction. In order to ensure that products qualify the trials, it has set up various quality control processes such as multi-level inspection at vendor's plants, inspection of outsourced materials / components, subassembly checks and final checks of its products in order to ensure highest success rates of products. BDL also organize periodical meetings with the Indian armed forces for monitoring progress and supply status of its products.

Strong order book and established financial track record of delivering growth: As of January 31, 2018, BDL's outstanding order book was Rs 105,430.00mn. It has delivered consistent growth over the last five financial years both in terms of financial and operational metrics. Its revenue from operations and profit for the year has increased from Rs 28,408.21mn and Rs 4,435.48mn respectively, in Fiscal 2015 to Rs 48,327.56mn and Rs 4,903.19mn, respectively, in Fiscal 2017 at a CAGR of 30.43% and 5.14% respectively.

Experienced board and senior management team: BDL has a diversified Board with directors and each of its key management team having several years of experience in the defence industry. Some of its senior management has grown within its organisation from trainee positions to head their respective departments. It has a large pool of experienced engineers. As of January 31, 2018, engineers constitute 28.35% of its total employees. Its employees are instrumental to its success including for the quality of its products and services and ability to operate in a cost-efficient manner, helping it to achieve a continuous profit margin and operate efficiently.

Business strategy:

Continue to invest in infrastructure*:* BDL's continuous investment in infrastructure in terms of its upcoming manufacturing facilities at Ibrahimapatnam and Amravati will enable to cater to the growing demand of customers. Its proposed Ibrahimapatnam and Amravati manufacturing facilities shall be utilised to manufacture SAMs (including a new generation of SAMs) and VSHORADMs respectively. It also intends to automate its production systems at its manufacturing facility in Hyderabad to increase the production of SAMs. BDL is also in the process of establishing a test fire range in Rachakonda, Telangana which will result in operational advantages and cost efficiencies.

Focus on R&D: The recent changes to the Government policies allowing private sector companies to participate in defence contracts will provide significant competition to BDL. In order to address these challenges, it intends to increase R&D activities in order to provide novel and better products to its customers. BDL also intends to carry out process improvements, in order to improve productivity and efficiency of its operations and thereby lower costs. It has established the missile development group with the objective to design and develop missiles. It has also established various technological labs such as RF labs, laser labs, aerodynamic labs and seeker labs to develop seeker technologies. BDL is conducting R&D for an improved version of the second generation of the Konkurs-M ATGM.

Developing new products*:* BDL intends to leverage its experience to develop new products such as new generation SAMs, ATGMs, and heavy weight torpedoes which will enable it to further increase its revenues. It is also the joint development partner with the DRDO for the next generation of ATGMs and SAMs. The MoD has identified it as the production agency and the lead integrator for one of the new generation of SAMs and the nominated agency for the third generation of ATGMs. It has also entered into several MoUs and non-disclosure agreements with various companies for developing new products and transfer of technologies. Development of new products will enable to diversify its offerings and help it reduce its reliance on its current products.

Provide product offerings to the international market: BDL primarily caters to the requirements of the Indian armed forces. The GoI has on a nomination basis chosen it to supply various products to the Indian armed forces. The GoI is encouraging BDI for export of its products. It intends to interact with potential overseas customers with a view to exporting its products and thereby reduce its reliance on the GoI for future orders. It intends to offer products such as Akash SAM, light weight torpedoes and countermeasure dispensing system to the international markets. BDL is currently exporting the light weight torpedoes.

Industry:

Economic Trends & Growth Outlook

The Central Statistics Organization and the Indian Monetary Fund forecasts India to be one of the fastest growing economy for the 2017-18 fiscal period. The Government of India forecasts the economy to grow at 7.1% during the same year. The growth is among the strongest of the G-20 nations. Foreign Direct Investment (FDI) rates have increased in sectors like defence, insurance and other sectors. As a result FDI has jumped from $ 36 Billion in 2013-14 to $ 60 Billion in 2016-17 (Source: Ministry of Commerce & Industry). Under the ambit of the 'Make in India' initiative, investment procedure, license applications, declarations and other processes has been streamlined to boost investor confidence. Applications for permits have been digitized and a new uniform tax regime (Goods & Services Tax) has been implemented to reduce complexity in taxation. The nation also has a vibrant micro, medium and small enterprise (MSME) sector to support manufacturing units set up in India. The MSME sector is expected to perform a vital support function to the manufacturing sector and will be crucial to India's agenda to raise the share of manufacturing in India's GDP from 16% to 25% by the end of 2025. The central Government as well as state Governments are also trying to incentivize domestic and foreign players to ramp up defence manufacturing in India through a combination of tax benefits, infrastructure incentives, and other methods.

The Indian Defence Market – Macro Outlook

The Indian defence market is in a state of transition, as a result of new policies promulgated by the Government. The Indian Armed Forces have not been able to spend the entire defence budget allocated, owing to straitjacketed procurement procedures and inherent delays; and the gap between allocated and actual defence spending has been increasing over the years. F&S expects the underspend in defence to decrease during the forecast period, as the Government modifies policies to simplify procurement. Reduced underspending will drive defence budgets and the market will expand to $68.7 billion, recording a compound annual growth rate (CAGR) of 6.52 %, or $79.17 billion at a CAGR of 8.04 %—depending on the Government's ability to simplify procurement through policy initiatives.

The three services have several modernization plans underway, some of which have been delayed. The Indian Government seeks to address this through the new Defence Procurement Policy (DPP) 2016, which seeks to streamline procurement and give more leeway to suppliers, opening up Foreign Direct Investment, allowing single vendor participation for tenders, and initiating a "Strategic Partner" model. The Government is outlining policies to convert India into a defence hub, with indigenous manufacturing being given the highest priority. Defence exports will be permitted and foreign direct investment (FDI) holdings have been tweaked to enable more foreign original equipment manufacturers (OEMs) to set up ventures in India. Several multi-billion dollar projects are expected to come to fruition. A few of these projects will be executed through Government-to-Government (G2G) and off-the-shelf purchases; however, the majority will be through partnerships between indigenous companies and foreign OEMs. Offset regulations are being relaxed to speed up procurements and provide flexibility for suppliers while approaching tenders. The focus is on fast-track deals, tailored projects with Indo-foreign OEM partnerships, and involving micro, small, and medium enterprises.

Indian Defence industry – Imports vs. Exports.

India's defence trade vis-à-vis exports and imports are at two ends of a continuum with a massive trade deficit skewed against Indian indigenous production. The Stockholm International Peace Research Institute (SIPRI) Arms Transfer Database indicates that India has remained the largest importer of defence equipment in the 2012-16 time-frame with its share in global arms imports increasing from 9.7 % in 2007–11 to 12.8 % in 2012-16. Compared to this, India's arms exports contribute to only an infinitesimally small fraction of global arms trade. The fact that Indian defence exports over the past 5 years totalled to only about $ 751.8 Million (at a conversion rate of 1 INR = 0.016 $), whilst world defence trade over the same time period was $ 8379 Billion puts India's miniscule defence output in perspective. (Sources, Press Information Bureau, SIPRI) A steep dependence on imports and off the shelf procurement might fast-track delivery of platforms, subsystems and weapons, but at the same time this dependency can be a double edge sword. Defence imports, often being high value contracts can have macroeconomic impacts in the nation's economy as it can be a constant drain on the nation's foreign exchange reserves and can also effect currency valuation. From a micro-economic standpoint, there is the opportunity loss for Indian industry, infrastructure and employment. Recognizing this, the Government is now adopting a multi-pronged approach towards indigenization consisting of a slew of measures including new DPP 2016, easing licensing, streamlining processes and a sector specific strategy for defence exports. Metrics sourced from the Press Information Bureau indicate an improvement in the export scenario over the past few years.

Guided missile systems in India and command policy

The Indian defence establishment is in an upward swing vis-à-vis modernization and procurement, due to escalatory geopolitical scenarios, technology obsolescence and to counter adversary modernization. The nation has to contend with two nuclear states simultaneously – China, with an inventory of over 250 nuclear weapons (Source: Arms Control Association) and hundreds of missiles and Pakistan, which has over a 100 nuclear weapons (Source: Arms Control Association) and an arsenal under questionable security arrangements. In this light, India needs effective nuclear weapon and high explosive (HE) warhead delivery systems, advanced tactical missiles for kinetic kills from greater ranges and a tiered advanced missile defence system in the lines of US Terminal High Altitude Area Defence (THAAD) units or Russia's Ground-Based Mid Course Defence. India's pursuit to missile system acquisition (import and indigenous production) and modernization reflect these objectives. The nation is also moving away from the Cold War concept of nuclear deterrence, to include a strong focus on ballistic missile defence (BMD) systems. Geopolitical moves such as ascension to the MTCR and the nation's pursuit to enter the Wassenar Agreement are indicative of latent undercurrents towards technology transfer, and developing international partnerships to improve the nation's missile development technologies. Extensive modernization efforts such as addition of new fighter squadrons, improving weapons systems mix at the platoon level, adding new warships and submarines will all in turn be driver for missile demand.

Export-centric Regulations regarding Missiles

Due to the sensitive nature of missile technology and drastic geopolitical ramifications that could arise as a result of proliferation, control regimes are in place which regulate export of missiles and sensitive technology associated with them. India's diplomatic objectives including ascension into various technology regimes will have benefits of access to new technologies from other signatories of missile control regimes and access to more export markets.

The Missile Technology Control Regime (MTCR)

This regime is an informal voluntary partnership among 35 countries to prevent proliferation of Unmanned Aerial System (UAS) technology and missile technology capable of carrying payloads of over 500 kgs and having a range of over 300kms. India ascended to the MTCR in 2016 and as a result technology transfer from other nation countries. This is also seen as a stepping stone to India's ascension to the Nuclear Suppliers Group. India has made the necessary changes to its SCOMET list to reflect its ascension to the MTCR as well.

The Guided Missile and Torpedo Market – India

The Indian Guided Missile and Torpedo market landscape consists of two main types of suppliers at present - DPSUs with indigenous Research Development Testing and Evaluation (RDTE) and manufacturing capabilities and foreign players which export their missile systems to India. There is also an emerging category – the Indian private sector teaming up foreign established defence experts to manufacture missile systems in India. This category is still in its infantile stages.

Frost & Sullivan forecasts a market valuation $ 24.49 Billion in the 2017-26 time frame for guided missiles and torpedoes. This market will be driven by

1. Committed and planned missile procurement underway such as that of S-400 Triumf Advanced Air Defence Systems, Barak-8 Surface to Air Missiles (SAMs), Hellfire Air to Surface Missiles, Harpoon Anti-ship Missiles, and heavy weight torpedoes etc
2. Modernization and refurbishment of deployed and stored missile systems used on existing air, land, and seabased platforms such as missile system upgrades in existing Talwar Class Frigates (FFGs), ATGM upgrades etc
3. Missile procurements expected as a result of procurement programs initiated during the forecast timeline such as new fighter procurements, Project 28A (Next Generation Missile Corvette), Project 17A (FFG), Project 75I (Diesel Electric Submarines with Air Independent Propulsion) etc

Global Competitive Landscape – Guided Missile and Torpedo Systems

The guided missile and Torpedo systems competitive landscape is dominated by 22 global players. Most companies do not offer solutions across the entire gamut of guided missile product segments and tend to specialize in segments where revenue opportunities are high. Also, export restrictions on theatre warfare weapons such as ICBMs, IRBMs etc. prevent many firms from developing newer solutions in this segment as there is a constraint on realizable opportunities. In such cases, OEMs only start developing solutions as and when there is an explicit demand from respective MoDs for such systems. There are over 60 ballistic missile solutions available globally today, with the overwhelming majority of solutions provided by Tactical Missiles Corporation (which is a holding corporation composed of over 20 Russian specialized munitions solution providers). Similarly, in the cruise missile segment, about 26 solutions (includes variants) are marketed today by 8 major firms. It is in the tactical missile segment that there is a large expansion in the number of solutions and in the number of companies providing them. This segment is also the largest segment by revenue in India's guided missile market forecast 2017-26. Within the tactical missile segment, ATGMs is the most competitive segment with majority of the companies having at least one solution because of the high demand due to relatively low costs associated to it. It is also the segment straddling the lowest price points vis-à-vis other segments. Surface to Air and Air to Surface segments are both broad product lines indicating a high variation in customer requirements. There are over 480 solutions available for these two segments globally. Air to Air and Anti-Ship missile segments also exhibit similar characteristics. Increase in demand for these categories is also driving the production of specialized solutions within the segment. Also, as improved electronic countermeasures systems are deployed on aircraft, smarter new age Air to Air missiles impervious to jamming are being developed. Today, there are about 166 Air to Air missile solutions available in the market. Within the Surface to Surface segment there are more solutions and market players in the medium range category as opposed to the long range category. The two categories combined together present over 250 solution types globally. Light torpedo is a more competitive segment with more choice of naval solutions available in the market. There are only about 14 major heavy water torpedo solutions available globally whilst there are 30+ solutions available in the light water torpedo segment

Indian Competitive Landscape – Guided Missile and Torpedo Systems

The Indian missile market today is dominated by DPSU produced missiles and foreign solutions at present. However, there is a drive within the establishment to indigenize missile production as much as possible in order to extricate the armed forces from any external dependencies for missile systems in the future. The goal is to aim for complete in house missile production and maintenance. BDL maintains all Indian missile systems and selected foreign missile systems at present. Solutions from Russia, Israel, Europe and US are well entrenched in the Indian market. At present, indigenous development and manufacturing is carried out by three DPSUs – DRDO, BDL, and BEL. Amongst the three BDL is the main player in manufacturing and is the sole manufacturer in India for SAMs, torpedoes, ATGMs. There are many opportunities in the Indian market which will be up for grabs in the future. These opportunities, coupled with the 'Make in India' initiative and DPP 2016 has stimulated an interesting market dynamic in India. Foreign OEMs accord high priority to the Indian market because of assured opportunities but has come to realize that partnering with DPSUs and private companies is the way ahead. This has resulted in many partnerships in the field, as well as stand-alone indigenous development. Indian private players are rushing to secure licenses for manufacturing missiles and to tie up with foreign players in order to field products for the extensive emerging opportunities in the Indian guided missile market space. However, it is to be noted that most of these private players lack manufacturing experience for the same. In this light, DPSUs like BDL which have proven guided missile, SAM and torpedo manufacturing capabilities stand to benefit. They also have the added advantage that missile systems produced is already inducted in the Indian Armed Forces, thereby bettering market perception for export. Defence buyers are more amenable to procure products which are already in service with operators rather than a new one. Most new private players are positioning themselves as system integrators at present. Only DPSUs have extended RDTE and manufacturing capability across the value chain.

Indian Guided Missiles and Torpedoes – Brief on Export Potential

India has set a precedent in frugal engineering and manufacturing and associated low cost solutions in the space domain. Nations with smaller defence budgets cannot afford advanced solutions from Western players because of the high costs associated with it. With a specialized defence-centric export policy in place and enabling process framework, India plans to emerge as key export player in defence. Policy changes with respect to issuance of end-user certificate, and enabling time frames in issuing end-user certificates have made exports easier. Less developed APAC and East Asian countries, the Middle East and Latin American countries could be highly receptive of cost-effective exports from India. The BrahMos missile system is a product which has been sought after by many nations such as UAE, Vietnam, Chile and South Africa. BDL has recently finalized an agreement to export light weight torpedoes to a foreign country. The Akash, MRSAM systems and ATGMS (MILAN 2T, Konkurs-M and INVAR 93 UBK 20) are also well positioned for exports. DRDO has readied 'Pragati', an export variant of the Prahaar tactical ballistic missile, which is capable of being equipped with omnidirectional warheads for export. The APAC region has lately witnessed geopolitical pressures due to China's expansionist policy and its claims centred on the '9-Dash Line'. Repeated incursions into airspace of disputed regions have underscored the need for affected parties to modernize to counter Chinese aggression. Countries like Vietnam and Philippines have limited budgets for defence procurement and will have to balance cost vis-à-vis technological improvements. Indian solutions such as Akash, MRSAM, and light weight torpedoes, both manufactured by BDL are solutions which score high on both these parameters. Latin American nations such as Chile, Argentina and Venezuela suffer from high equipment obsolescence and field out-dated guided missiles. These nations could also be tapped. Similarly, Middle Eastern countries such as UAE and Qatar are investing in improving air defence and strike capabilities with planned procurement of MRSAMs/ LRSAMs and cruise missiles. Most solutions developed and manufactured by DPSUs such as, BDL and BEL have a good success rate during testing and as a result have a high degree of credibility in the defence market. DPSUs stand to capitalize on having achieved a balance between cost and technology in marketing defence value propositions abroad. However, it is to be noted the tactical missile segment is highly competitive with over 22 companies presenting a large number of solutions. With cost benefits already on its side, DPSUs must deepen their product lines and broaden their product portfolio in order to remain competitive and have a high degree of customizability associated to their product offerings.

Future Outlook

Frost & Sullivan has estimated the total Indian guided missile and torpedo market to be worth $ 24.49 Billion. 79% of the market valuation remains unaddressed and $ 19.41 Billion worth of opportunities will emerge in the 2017-26 time-frame. Armed forces modernization and new procurements in terms of fighters, IFVs, submarines, corvettes, frigates etc. will in turn drive procurement of guided missile and torpedo systems. The ballistic missile system segment is expected to remain exclusively with DPSUs / GoI. However, the other segments are expected to get more competitive. The Indian defence market at an inflexion point today with policy changes mandating indigenous production. Private players are scrambling to ready themselves for opportunities by setting up manufacturing facilities in India and securing production licenses. They are positioning themselves as able partners for foreign OEMs in the guided missile space to enter into partnerships with. However, as far as production expertise is concerned, the capabilities of private players are limited. DPSU players such as BDL have strong track record of guided missile production with a well reinforced and holistic value chain in the same. BDL is also expanding production capacities to make way for export and emerging internal demand and thus stand to gain in the short and medium-terms. In the long run, policy directives indicate a thrust towards a level playing field for both private Indian defence players and DPSUs. As the resource-rich private sector plays catch up with DPSUs in guided missile production during the initial few years of the forecast, DPSUs such as BDL must broaden product portfolios, improve product-line depth to field missiles with varied ranges, and incorporate modern technologies such as interchangeable warheads etc. to futureproof product offerings against the onslaught of private competition.

Key concerns

BDL is primarily dependent on a single customer, the Indian armed forces through the Ministry of Defence, Government of India ("MoD"): BDL's primary customer is the MoD from which it derived 98.31%, 97.31%, 92.93% and 79.27% of its total revenue from operations for the six months period ended September 30, 2017, Fiscals 2017, 2016 and 2015, respectively. As on January 31, 2018, it has an order book position of Rs 105,430.0mn. Although BDL is amongst a few industries in the world having capabilities to manufacture and integrate guided weapon systems and counter measures for the MoD for over four decades, and derive a majority of its revenues from primary customer, the MoD, it cannot be assured that the MoD will continue to engage it or that it will continue to sustain the general level of revenue that it has secured in the past. Further, if BDL's major customer ceases to have business dealings with it or materially reduces the level or frequency of their orders from it and BDL is unable to secure new orders from other sources to replace such a loss or reduction, its business, financial condition, results of operations and prospects may be adversely affected.

As a result of national security concerns, certain information in relation to the business and operations is classified as 'secret and confidential' pursuant to which BDL has not disclosed such information: BDL operates in the defence sector and is engaged in the manufacture of Surface to Air missiles (SAMs), Anti-Tank Guided Missiles (ATGMs), underwater weapons, launchers, countermeasures and test equipment, as well as the refurbishment and extension of the life of missiles. As BDL's operations are directly linked to the Indian defence sector, a large part of the operations of the Company are classified as secret and confidential. As a result of national security related concerns, the MoD and BDL has determined that certain material documents and information as secret and confidential such as board minutes and committee minutes, agreements which it executed with its suppliers, vendors, customers, technical collaborators and subcontractors, information in relation to the business strategy, research and development plans, demand and supply forecasts, existing capacity, past trends and future prospects, planned capital expenditure, and qualitative and quantitative information.

Business operations are based out of three units in Telangana and Andhra Pradesh. The loss of, or shutdown of, operations at any of units in Telangana and Andhra Pradesh will have a material adverse effect on the business, financial condition and results of operations: BDL's manufacturing units are located in Hyderabad and Bhanur of Telangana and Vishakhapatnam, Andhra Pradesh. It has commissioned certain facilities at its proposed manufacturing unit in Ibrahimapatnam, Telangana. Accordingly, BDL rely exclusively on its facilities located in Telangana and Andhra Pradesh to earn revenues, pay operating expenses and service debt. Any significant interruption to, or loss or shutdown of, operations at any facilities would adversely affect the business. BDL's operations may be subject to unexpected interruptions, including from natural and manmade disasters. Its facilities and operation could be adversely affected, among other factors, breakdown or failure of equipment, difficulties or delays in obtaining spare parts and equipment, power supply or processes, performance below expected levels of output or efficiency, obsolescence, labour disputes, natural disasters, raw material shortages, fire, explosion and the need to comply with the directives of relevant Government authorities. Any disruption of BDL's existing supply of basic infrastructure services such as power or water, its failure to obtain such additional supplies as required by BDL or an increase in the cost of such supplies may result in additional costs to BDL. In such situations, its production capacity may be materially and adversely impacted. In the event its facilities are forced to shut down for a significant period of time, its earnings, financial condition and results of operation would be materially and adversely affected.

Future growth and expansion is limited by BDL's production capacities, the requirements of the MoD and the locations at which it operates*:* BDL's production capacity is limited by, amongst other things, the size of its facilities, the number, size and capacities of units and equipment and the future requirements of the MoD. In addition, the size and capacity of missiles/ torpedoes it manufactures is limited by its location at which it operates. BDL's expansion plan of setting up two more manufacturing units at Amravati in Maharashtra and Ibrahimapatnam in Telangana is still in fruition and will be subject to finalisation of contracts for existing or future products with its customers. In the event BDL is unable to set up the two proposed units in a timely manner, its business, results of operation, financial condition and prospects will be adversely affected. It cannot be assured that it will be able to manage the future expansion of its facilities effectively. Any failure on part to do so will have a material adverse effect on the business, financial condition, results of operations and prospects.

Derive revenues from the MoD contracts on the achievement of certain milestones. Its contracts with the MoD are subject to termination*:* Under the contracts with the MoD, funds are released upon execution of the contract and based on achievement of certain milestones in the projects awarded to BDL. Its customers usually provide an advance payment for the products. Further progressive advances are made under these contracts as and when it incur expenditure. The balance payments for the contracts are made on proof of dispatch, proof of receipt and inspection of the products. In addition, its MoD contracts permit the MoD to terminate the contract for any delay of more than 24 months after the scheduled delivery date of the product, if such delay not being attributable to force majeure. The

MoD may also terminate a contract for default in the event of breach by BDL. The termination of multiple or large programs could have an adverse effect on its future revenue and earnings.

Imposition of liquidated damages and invocation of performance bank guarantees / indemnity bonds by customers could impact results of operations and may face potential liabilities from lawsuits and claims by customers in the future*:* All of BDL's contracts with its customers provide for liquidated damages for late delivery. Depending on the customer, it is required to provide indemnity bond / performance bank guarantee. Any delay in the supply of goods may lead to the levy of liquidated damages or invocation of the indemnity bond / performance bank guarantee by its customers. BDL cannot assure that in future such contracts (entered / to be entered into by s) can be completed profitably. Any time and / or cost overruns on its contracts could have a material adverse effect on its business, financial condition and results of operations. The incurring of such liabilities pursuant to the imposition of liquidated damages as well as invocation of such performance bank guarantees and indemnity bonds for multiple or large programs could have an adverse effect on the business, operations, revenues and earnings.

BDL is subject to a number of procurement rules and regulations of the MoD, Government regulations and other rules and regulations. Its business and reputation could be adversely affected if BDL fail to comply with applicable rules: BDL is required to comply with and are affected by policies, rules and regulations of the MoD, in particular the DPP and its amendments/ revision from time to time relating to the award of the MoD contracts. Government contract rules and regulations affect how it does business with its customers, in particular, the MoD and, in some instances, impose added costs on its business. A violation of specific rules and regulations could harm its reputation and result in the imposition of fines and penalties or the termination of its contracts. In addition, the MoD contracts typically span one or more base years and with an option for extension. The MoD, generally has the right not to exercise option periods and may not exercise an options period if the agency is not satisfied with its performance on the contract. The MoD and Indian armed forces, routinely audit and review the performance of programs for which it has entered into specific contracts with them. These audits review BDL's performance under these programs which include the review of cost structure, compliance with applicable laws, regulations of the MoD and standards of quality. If an audit uncovers any improper or illegal activities, such as, an event where it has paid any third party commission to ensure that it secure the MoD contract or are found guilty of securing a MoD contract by virtue of undue influence, BDL may be subject to administrative sanctions, including termination of contracts, recovery of loss due to such termination, imposition of penal damages, forfeiture of indemnity bonds / bank guarantees provided under the contracts and refund of amounts paid by the MoD. In addition, BDL could suffer serious reputational harm if allegations of impropriety were made against it.

BDL is continuously dependent on key original equipment manufacturers ("OEM") for subassemblies / components, single source suppliers and sub-contractors. Any failure on the performance of any of them could have a material impact on operations*:* BDL's business substantially relies on licenses from foreign OEMs and the DRDO. It depends on these prime contractors, supplying agency, the DRDO and OEM relationships to provide with the transfer of technology, as well as other strategic benefits. Its business, financial condition or results of operations could be materially adversely affected if these prime contractors eliminate or reduce their subcontracts, either because they choose to establish relationships with its domestic competitors for future programs or because they choose to directly offer services to the MoD that compete with business, or in the event that the GoI or the MoD terminates or reduces these other contractors' programmes or does not award them new contracts. Inability to secure the future technology licenses for the latest products from these prime contractors and OEM relationships, as well as from its strategic relationships with certain of its competitors could have a material impact on operations. Further, for BDL's own indigenous developments it is significantly dependent on a few key suppliers and subcontractors to provide with critical components and raw materials, parts and assemblies, training and services that it need to manufacture its products. Depending on the severity of these difficulties, some suppliers could be forced to reduce their output, shut down their operations or file for bankruptcy protection, which could disrupt or supply of components, raw materials and parts. Finally, if the macro-economic environment leads to higher than historic average inflation, BDL's labour and procurement costs may increase significantly in the future. This may lead to higher components and production costs which could in turn negatively impact its future profitability and cash flows, to the extent it is unable to pass these costs on to its customers or require suppliers to absorb such costs. BDL's suppliers or subcontractors may also make claims or assertions against it for higher prices or other contractual compensation, in particular in the event of significant changes to design and development, certification or production schedules, which could negatively affect its future profitability.

Operating and financial performance may be adversely affected by lack of or delays in the award of long-term contracts or cancellation/ modification of existing contracts*:* The long term sustainability of BDL's economic and financial performance depends on its ability to perform its existing contracts and to enter into new long-term contracts. Given the nature of customers, that is, primarily the MoD its existing long term contracts may be affected by disputes with customers, which may put in danger the regular performance of the obligations arising thereunder. In addition, BDL's customers may not place a repeat or continuous order for its existing products. Furthermore, no assurances can be given that it will enter into new contracts to permit to carry on its business or that any new contract entered into or renewed will be on terms and conditions similar to those of its current contracts. The award of new contracts is subject to competition and is affected by factors outside of its control such as Governmental spending decisions and administrative procedures. Any failure to secure or any delay in securing a consistent number of long – term contracts or any interruption, suspension or termination of existing contracts may cause an insufficient workload that would adversely affect its operating and financial position.

Business could be materially adversely affected if any fault of BDL causes any accidents at its units*:* The manufacturing processes for BDL's products are highly complex, require technically advanced and costly equipment and hazardous materials, and involve risks, including breakdown, failure or substandard performance of equipment, improper installation or operation of equipment and industrial accidents. Its operations expose to potential liabilities for personal injury or death or property damage as a result of the failure or malfunction of manufacturing equipment or of any missile/ torpedo or other products that has been designed, manufactured or serviced by it. In addition, defects in or malfunctioning of BDL's products could cause severe damage to property and death or serious injury to its customers' personnel, which could expose to litigation and damages. BDL's public liability insurance is adequate to protect it from product liability claims, while testing and until it delivers the missile/ torpedo/ other products to its customer base, however, it may not be adequate to cover any third party claims brought against it. Also, BDL may not be able to maintain insurance coverage in the future at an acceptable cost. Any such liability not covered by insurance or for which third party indemnification is not available could require it to dedicate a substantial portion of its cash flows to make payments on such liability, which could have a material adverse effect on the business, financial condition and results of operations.

BDL manufacture and service products that incorporate advanced technologies. The introduction of new products and technologies involves risks and may not realize the degree or timings of benefits initially anticipated: BDL seeks to achieve growth through the development, production, sale and support of innovative products that incorporate advanced technologies. The product, program and service needs of its customers changes and evolve regularly, and it invest substantial amounts in research and development efforts to pursue advancements in a wide range of technologies, products and services. If its products ramp-up efforts are delayed or if the suppliers cannot deliver on time or perform to its standards, it may not meet its customers' production schedules, which could result in material additional costs, including penalties that could assessed under existing contractual provisions. BDL's contracts are generally awarded to it on the basis of being a nominated production agency of the MoD. However, it understand that the increase in competition from domestic and international players, there is no assurance that its status as a nominated production agency will remain. Some of its contracts provide for liquidated damages in the event that it is unable to perform and deliver in accordance with the contractual specifications and schedule. In addition, BDL may face customer directed cost reduction targets that could have a material adverse effect on the profitability of its contracts. Furthermore, it cannot be sure that its competitors will not develop competing technologies which gain market acceptance in advance of or instead of its products. The possibility exists that its competitors might develop new technology or offerings that might cause its existing technology and offerings to become obsolete. Any of the foregoing could have a material adverse effect on competitive position, results of operations, cash flows or financial condition.

BDL incur and expect to continue to incur research, design and development costs, which may not lead to satisfactory returns: The business environment in many of BDL's principal operating segments requires extensive design and development expenses to keep pace with rapid technological and market changes in the guided missile manufacturing sector. However, with the MoD and the Indian armed forces opting to phase out the upgrade its defence systems and ordering new missiles with superior technology, it would need to invest in research, design and development to manufacture indigenous missiles to remain competitive. Its future growth depends on adapting existing products to new requirements and introducing new products that achieve acceptance of the MoD and the Indian armed forces. To this extent, it incur research, design and development costs. Its future growth depends on penetrating new international markets as well as remaining as a key supplier to the MoD, adapting existing products to new applications, and introducing new products that achieve market acceptance. BDL plans to incur substantial research, design and development costs as part of its efforts to design, develop and commercialize new products and enhance existing products. It also carry out its own research, design and development for which it may also utilize borrowings or other external funding in the future. Since BDL account for research, design and development of its own as an operating expense, these expenditures may adversely affect its earnings in the future. This increase in research, design and development not funded by its customers which is accounted as an operating expenses may adversely affect BDL's earnings.

BDL may fail to enhance market position by failing to improve research and development capabilities, access new markets and develop new relationships which complement existing business operations which may have an adverse impact on business, financial condition and results of operations*:* As part of BDL's expansion strategy, it intends to enhance market position through improving research and development capabilities and accessing new markets and relationships which complement its existing business operations. The implementation of such expansion is subject to a number of risks, including, but not limited to the risks of:

- Failing to assimilate new technology required for building new products identified;
- Failure of new equipment and facilities installed for expansion;
- Experiencing difficulties in obtaining regulatory approvals;
- Being adversely affected by changes in market conditions and demands;

- Experiencing the diversion of its management's time and attention from other business concerns; and
- Experiencing difficulties in retaining the key employees of who are essential to successfully managing those businesses.

If any of these uncertainties materializes, it may have an adverse effect on BDL's business, financial condition and results of operation.

BDL could incur losses under its fixed price contracts as a result of cost overruns or delays in delivery which may have an adverse effect on business, financial condition and results of operations: BDl's earnings and margins may vary materially depending on the types of long-term MoD contracts undertaken, the nature of the products produced or services performed under those contracts, the costs incurred in performing the work, the achievement of other performance objectives, and the stage of performance at which the right to receive fees is finally determined. Changes in procurement policy favoring new, accelerated or different award fee criteria may affect the predictability of profit rates. BDL is dependent on its suppliers for the timely delivery of raw materials, the most important of the raw materials. Additionally, it outsource certain aspects of its manufacturing work, such as, components and sub-assemblies to its sub-contractors. In addition, it is also dependent on subcontract labour and production workers for the construction its missiles. If it is unable to source such raw materials, equipment and components from alternative suppliers on a timely basis, out production schedule may be delayed, thereby delaying the delivery of the missile to its customers. In addition, BDL's profitability may also be adversely affected if it is unable to secure alternative sources of such raw materials, equipment and components in a cost efficient manner or if it is unable to recover liquidated damages from the defaulting suppliers. Depending on the size of the project, variations from estimated contract performance could significantly reduce earnings, and could result in losses, during any quarter of a fiscal or entire fiscal. All of BDL's fixed price contracts provide for liquidated damages for delay in delivery and for quality issues. There can be no assurance that its customers in future will not rescind their contracts with the company if there is a delay in delivery beyond the time stipulated in the contract or it may need to renegotiate some of its contracts. This may have an impact on the reputation, which could have a material adverse effect on its financial condition, results of operations and prospects.

The continuance of success depends, in part, on ability to develop new products and new technologies and maintain technologies, facilities, equipment and a qualified workforce to meet the needs of current and future customers: The markets in which BDL operates are characterized by rapidly changing technologies. The product and service needs of its customer changes and evolves regularly. Accordingly, its success in the competitive defence industry depends upon its ability to develop and market its products and services, as well as its ability to provide the people, technologies, facilities, equipment and financial capacity needed to deliver those products and services with maximum efficiency. If BDL fails to maintain its competitive position, it could lose a significant amount of future business to its competitors, which would have a material adverse effect on the ability to generate favorable financial results and maintain market share. Operating results of the company is heavily dependent upon the ability to attract and retain sufficient personnel with requisite skills and/or security clearances. If qualified personnel become scarce, it could experience higher labor, recruiting or training costs in order to attract and retain such employees or could experience difficulty in performing under its contracts if the needs for such employees are unmet, which would have a material adverse effect on its ability to generate favorable financial results and operations.

Planned capital expenditure may not yield the intended benefits or may be unable to raise finances to fund its planned capital expenditure which may negatively impact the business, financial condition and results of operations: BDL plans to use internal accruals and additional bank financing to fund its planned capital expenditure and future expansion (including setting up of its upcoming manufacturing units at Ibrahimapatnam and Amravati). The amount of such additional required funding will depend on whether these projects are completed within budget, the timing of completion of the construction of the two manufacturing units, expansion of revenue generating operations, any further investments BDL may make, and the amount of cash flow from its operations in the future. If delays and cost overruns are significant, the additional funding it would require could be substantial. Additional bank financing may not be available as and when required and, if incurred, would result in increased debt service obligations and could result in additional operating and financing covenants, or liens on its assets, that would restrict its operations. It cannot be assured that necessary financing will be available in amounts or on terms acceptable to it, or at all. If it fails to raise additional funds in such amounts and at all. If it fails to raise additional funds in such amounts and at such times as it may need, it may be forced to reduce its capital expenditures and construction of its proposed two new facilities, which may result in its inability to meet drawing conditions under current loan faculties or default and exercise of remedies by the lenders under loan facilities. In that event, BDL may be unable to complete its projects under construction and could suffer a partial or complete loss of its investments in projects.

BDL cannot assure that it will be able to compete successfully against competitors: Business of BDL is highly competitive. It faces competition from competitors located outside India. It will also face competition from Indian companies who are obtaining approvals from the GoI to manufacture missiles due to the liberalization of the defence sector. It compete on the basis of its ability to fulfil its contractual obligations including the timely delivery of missiles constructed by it, its facilities' capacity and operational efficiencies and the price and quality of missiles it construct. Some of its competitors have more resources than it has and some may have lower costs of operations, including lower costs of raw materials and manpower, than it has. There can be no assurance that BDL will be able to compete successfully against its competitors as well as new entrants in its industry in the future, or that the missile manufacturing and repair companies that are not directly in competition with it now will not compete with the company in the future. Accordingly, its business, financial condition, results of operations and prospects would be adversely and materially affected if it is unable to maintain its competitive advantage and compete successfully against competitors and any new entrants to its industry in the future.

BDL or its technical collaborators may engage in certain transactions in or with countries or persons that are subject to U.S. and other sanctions: U.S. law generally prohibits or restricts U.S. persons from directly or indirectly investing or otherwise doing business in or with certain countries or territories and with certain persons or businesses that have been specially designated by the OFAC or other U.S. Government agencies. Other Governments and international or regional organizations also administer similar economic sanctions. It has entered into a number of non-disclosure agreements, memorandums of understanding and projects for technical collaboration, transfer of technology and co-development of certain products with entities engaged in the similar sector of business in other jurisdictions. BDL carries on its operations with technical collaborators, located in, countries to which certain OFAC-administered and other sanctions continue to apply, or was applicable in the past, such as Russia. Although it has compliance systems in place that it sufficient to block prohibited transactions, and BDL has not been notified that any penalties or other measures will be imposed on it, in relation to its technical collaborator located in Russia, there can be no assurance that BDL will be able to fully monitor all of its transactions for any such potential violation. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase regulatory scrutiny of Company's business or result in one or more of its business activities being deemed to have violated sanctions, or being sanctionable.

Growth rate, the number of orders BDL has received in the past and its current order book may not be indicative of its future growth rate or the number of orders it will receive in the future: Order book on hand of BDL, as of a certain date, represents the total nominal value of the contracts that has not been completed, excluding the portion of revenue in respect of those orders that it has recognized as of such date. As of January 31, 2018, BDl's outstanding order book was Rs 105,430.00mn. The successful conversion of these orders into revenue depends on a number of factors including, among other things, absence of adverse changes in the Indian and global missile manufacturing markets, the availability of funds to customers, completion, its production capacity, its research and development and its ability to deliver the missiles on time. Going forward, BDL's order book may be affected by delays, cancellations, renegotiations of the contracts as well as the long gestation period in concluding contracts, if any, therefore it cannot be assure that it will be able to deliver all of its existing orders on schedule and successfully turn them into its revenue. Furthermore, BDL face risks of a low growth rate of orders because the orders placed by its customers are typically non-recurring in nature. As a result, it cannot be assured that it will receive the same number of orders as or more order than it has received in the past or that the contract value of the order book will remain the same or increase.

BDL may face claims or incur additional rectification costs for defects and warranties in respect of its missiles which could have a negative effect on the business, financial condition and results of operations. BDL may face claims by its customers in respect of defects or poor workmanship in respect of missiles built by it and such claims could be substantial. Such claims could also adversely affect its reputation and ability to grow business. BDL generally extend a warranty period of 24 to 60 months to its customers for new missiles from the date of acceptance. Due to the length of the warranty period extended by it, BDL may be subject to claims from its customers and may incur additional costs if rectification work is required in order for it to satisfy its obligations during the warranty period. It cannot be assured that its warranty provisions will be sufficient to cover the costs incurred for defects. If the costs of any rectification works exceed the warranty provisions it has made, its business, financial condition, results of operations and prospects may be adversely affected

Business is dependent on information technology infrastructure and BDL relies on third party license for the business: BDL is dependent on its information technology infrastructure to conduct business activities, manage risks, implement internal control systems and manage and monitor business operations. The key systems in place include an enterprise resource planning system, which enables its management to more accurately assess the inventory, production capacity, procurement requirements and performance of each of its departments and assists them in allocating resources throughout business and improves operational efficiency by enhancing supply chain and distribution management. BDL also use third party software for creating detailed designs in relation to the missiles it build. A failure or breakdown of any part of its information technology infrastructure can interrupt normal business operations, result in a slowdown in operational and management efficiency and impact its ability to meet construction schedules. A serious dispute with information technology service providers or termination of its licensing agreements or service contracts can impact the ability to upgrade its information technology infrastructure on a timely and cost-effective basis, which is critical maintaining its competitiveness. If any of these events occur, BDL's business, financial condition and result of operations may be adversely affected.

Security breaches in classified Government systems could adversely affect the business: Many of the programs BDL support and systems it develop, manufacture and maintain involve managing and protecting information involved in intelligence, national security and other classified Government functions. While it has programs designed to comply with relevant security laws, regulations and restrictions, a security breach in one of these systems could cause serious harm to its business, damage its reputation and prevent from being eligible for further work on critical classified systems for the MoD or the Indian armed forces. Damage to BDL's reputation or limitations on its eligibility for additional work resulting from a security breach in one of the systems it develop, install and maintain could materially reduce its revenue.

Some of BDL's workforce is represented by labour unions so its business could be harmed in the event of a prolonged stoppage of work. Approximately 2,163 of BDL's employees are unionized, which represents approximately 68.97% of its employee base at January 31, 2018. As a result, it may experience work stoppages, which could adversely affect the business. It cannot be predicted how stable its union relationships will be or whether it will be able to successfully negotiate collective bargaining agreements without impacting financial condition. In addition, the presence of unions may limit BSL's flexibility in dealing with workforce. Work stoppages could negatively impact its ability to manufacture products on a timely basis, which could negatively impact results of operations and financial condition.

BDL is subject to extensive Government regulation and if it fails to obtain, maintain or renew statutory and regulatory licenses, permits and approvals required for business, its results of operations and cash flows may be adversely affected: BDL's operations are subject to extensive Government regulation and is required to obtain and maintain a number of statutory and regulatory permits and approvals under central, state and local Government rules in India, generally for carrying out business and for each of manufacturing facilities. A majority of these approvals are granted for a limited duration and require renewal. The approvals required by the Company are subject to numerous conditions and it cannot be assured that these would not be suspended or revoked in the event of non-compliance or alleged non-compliance with any terms or conditions thereof, or pursuant to any regulatory action. If there is any failure by BDL to comply with the applicable regulations or if the regulations governing its business are amended, it may incur increased costs, be subject to penalties, have approvals and permits revoked or suffer a disruption in the operations, any of which could adversely affect the business.

Depend on the contribution of key managerial personnel. The loss of their services may have a material adverse effect on the business, financial condition and results of operations: BDL's success depends, to a significant extent, upon the continued service of key managerial personnel. If it lose the services of any of its existing key management personnel without timely and suitable replacements, or are unable to attract and retain new personnel with suitable experience as it grow, its financial performance and operation may be materially and adversely affected. As BDL is a PSU, its Directors are appointed by the Government of India and it cannot be assured that the Directors appointed will be able to adequately replace its key managerial personnel. Accordingly, the loss of one or more members of key managerial personnel could have a material adverse effect on its business, financial condition, results of operations and prospects, as these persons may be difficult to replace.

Costs may increase due to changes in regulations pertaining to the defence/ missile manufacturing industry: The defence/ missile manufacturing industry is heavily regulated by both Indian and international regulations. Among other things, the missiles BDL construct for its customers are required to meet the standards and requirements of the MoD and the Indian armed forces. If Indian or international regulations applicable to the defence industry become more stringent in the future or additional regulations or controls requiring the adoption of new construction requirements are introduced that it cannot satisfy in a cost efficient manner or it is unable to pass any additional costs resulting from these new requirements to its customers, its costs will increase. Any significant increase in cost due to changes in regulations in the defence/ missile manufacturing industry may adversely affect business, financial condition and results of operations.

Restrictions on current and future export of products and other regulations could adversely affect the business, results of operations and financial conditions: BDL design and manufacture many defence products considered to be of strategic national interest. The export of such products outside the Indian domestic market is subject to licensing, export controls, various other regulations which are all subject to the clearance of the GoI. Failure to comply with these regulations and requirements could result in contract modifications or termination and the imposition of penalties, fines and withdrawal of authorisations, which could negatively affect BDL's business, results of operation and financial situation. Authorisations can be revoked and general export controls may change in response to international conflicts or other political or geopolitical factors. Reduced access to military export markets could have a material adverse effect on its business, results of operations and financial condition.

BDL is subject to compulsory expropriation by the GoI of any critical technology developed by it is which may have an adverse effect on the business, financial condition and results of operations*:* The GoI as a controlling shareholder may issue directives with respect to the conduct of its business or affairs for as long as BDL remain a government owned company, as defined under the Companies Act, 2013. Further, under Article 154 of the Articles of Association of the Company, the President of India may from time to time issue such direction as he may consider necessary in regard to the exercise and performance of the functions of BDL in matters involving national security or substantial public interest, and in like manner may vary and annul any such directions and its Board shall duly comply with give immediate effect to the directions so issued. In light of the above, the GoI may issue directives for compulsory expropriation of any critical technology developed by the Company which may be deemed necessary due to reasons of national security or substantial public interest. Any such action in respect of any of the technology in which BDL is investing or may invest in the future may adversely affect the business, financial condition or results of operations. In particular, given the importance of the defence industry to the Indian economy, the GoI could require BDL to take actions designed to serve public interest and not necessarily maximize its profits.

The GoI has implemented a new national tax regime by imposing GST. BDL is unable to quantify the impact of this development at this stage due to limited information available in the public domain. If it is ttaxed at a higher rate than the current tax rates, its financial conditions and results of operations may be adversely affected: The GoI on July 1, 2017 introduced, a comprehensive national Goods and Services Tax ("GST") regime that combines taxes and levies by the central and state governments into one unified rate of interest. While the GoI and other state governments has announced that all committed incentives will be protected following the implementation of the GST, given the limited availability of information regarding the GST BDL is unable to provide any assurance as to the effects of its implementation. Such implementation also remains subject to any disputes between the various state governments, which could create further uncertainty. Any such future increases or amendments may affect the overall tax efficiency of companies operating in India including it and may result in significant additional taxes becoming applicable to it. If the tax costs associated with certain transaction are greater than anticipated as a result of a particular tax risk materializing, it could have a material adverse effect on BDL's business, results of operation and financial condition.

Profit & Loss Rs in million

Particulars	H1FY18	FY17	FY16	FY15
Revenue from Operations	18056.8	48327.6	40787.6	28408.2
Changes in inventories of finished goods and work-in-progress	3097.8	1355.0	1378.6	-266.3
Other Income	747.9	2298.2	3847.6	4390.3
Total Income	21902.5	51980.7	46013.8	32532.3
Total Expenditure	18704.4	44000.2	37033.7	25393.0
Cost of material consumed	12608.2	31192.4	26231.5	18538.9
Other manufacturing expenses	1807.9	2383.9	3330.5	1199.8
Selling and distribution expenses	15.1	55.9	58.4	55.4
Employee benefits expense	2224.2	4483.9	3262.3	3124.8
Other Expenses	2049.1	5884.2	4150.9	2474.1
PBIDT	3198.1	7980.5	8980.1	7139.3
Interest	15.5	36.8	35.2	33.2
PBDT	3182.6	7943.7	8944.9	7106.1
Depreciation	302.5	621.9	532.2	666.8
PBT	2880.1	7321.9	8412.7	6439.3
Tax (incl. DT & FBT)	1154.2	2418.7	2792.0	2003.8
Tax	1471.8	3126.0	3165.9	2342.3
Deferred Tax	-317.6	-707.3	-373.9	-338.5
Adj. Profit	1725.9	4903.2	5620.7	4435.5
EPS (Rs.)	18.83	40.1	57.5	38.6
Equity	916.4	1221.9	977.5	1150.0
Face Value	10.0	10.0	10.0	10.0
OPM (%)	13.6	11.8	12.6	9.7
PATM (%)	9.6	10.1	13.8	15.6

Balance Sheet: Rs in million

Particulars	H1FY18	FY17	FY16	FY15
ASSETS				
Non-current Assets				
Property, Plant and Equipment	5988.4	6053.4	5576.4	3878.6
Capital Work-in-Progress	1761.2	1301.2	1250.8	1351.1
Investment Property	0.1	0.1	0.1	0.1
Intangible Assets	1585.6	1601.4	1391.2	1298.3
Intangible Assets under development	28.9	11.3	11.3	71.6
Financial Assets				
Investments	*36.9*	*29.5*	*29.5*	*29.3*
Loans	*37.1*	*32.3*	*38.3*	*38.0*
Other Financial Assets	*484.0*	*502.0*	*548.0*	*515.3*
Deferred Tax Assets	*1924.8*	*1513.3*	*768.3*	*398.0*
Other Non-current Assets	*323.2*	*330.2*	*344.1*	*358.0*

Total Non - current Assets	**12170.2**	**11374.6**	**9957.8**	**7938.2**
Current Assets				
Inventories	21594.1	22511.3	20576.6	14756.7
Financial Assets				
Trade Receivables	*1297.7*	*3564.1*	*1448.6*	*3347.9*
Cash and Cash Equivalents	*4661.2*	*462.0*	*2325.2*	*1239.2*
Bank balances other than (ii) above	*8449.0*	*16918.1*	*30099.7*	*35450.0*
Loans	*22.8*	*28.9*	*25.6*	*24.5*
Other Financial Assets	*19190.1*	*17287.3*	*14875.9*	*7413.6*
Current Tax Assets (Net)	47.9	39.2	0.0	201.2
Other Current Assets	15,416.89	13822.4	17096.9	13748.4
Total Current Assets	**70679.6**	**74633.3**	**86448.5**	**76181.5**
Total Assets	**82849.8**	**86007.9**	**96406.3**	**84119.7**
EQUITY AND LIABILITIES				
Equity				
Equity Share Capital	916.4	1221.9	977.5	1150.0
Other Equity	15390.0	20902.7	17534.9	15376.7
Total Equity	**16306.4**	**22124.6**	**18512.4**	**16526.7**
Non-current Liabilities				
Financial Liabilities				
Other Financial Liabilities	*497.8*	*516.3*	*563.57*	*529.93*
Provisions	273.2	178.7	11.4	21.9
Other Non-current Liabilities	3506.4	4638.2	12143.0	18623.0
Total Non-current Liabilities	**4277.3**	**5333.2**	**12718.0**	**19174.8**
Current Liabilities				
Financial Liabilities				
Trade Payables	*15248.1*	*14950.9*	*13431.1*	*5140.8*
Other Financial Liabilities	*1532.9*	*1171.3*	*1037.3*	*1091.4*
Other Current Liabilities	35985.8	36195.0	46991.3	40176.0
Provisions	9499.1	6,232.98	3,532.48	2,010.03
Current Tax Liabilities (Net)	0.0	0.0	183.8	0.0
Total Current Liabilities	**62266.0**	**58550.1**	**65176.0**	**48418.2**
Total Equity and Liabilities	**82849.8**	**86007.9**	**96406.3**	**84119.7**

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