

# Initiating Coverage Bharat Dynamics Ltd.

Nov 28, 2023





# Bharat Dynamics Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Defence	Rs 1159.25	Buy in the band of Rs 1147-1171 & add more on dips to Rs 1023-1043 band	Rs 1274	Rs 1394	2-3 quarters

HDFC Scrip Code	BHADYNEQNR
BSE Code	541143
NSE Code	BDL
Bloomberg	BDL IN
CMP Nov 24, 2023	1159.25
Equity Capital (Rs cr)	183.3
Face Value (Rs)	10
Equity Share O/S (cr)	18.3
Market Cap (Rs cr)	21,246.9
Book Value (Rs)	184.3
Avg. 52 Wk Volumes	401742
52 Week High	1278.0
52 Week Low	786.9

Share holding Pattern % (Sept, 2023)	
Promoters	74.9
Institutions	15.9
Non Institutions	9.2
Total	100.0



**HDFCsec Retail research  
stock rating meter**

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Bharat Dynamics (BDL) is a leading Defence PSU in India manufacturing guided missile systems. It is engaged in the manufacturing of surface to air missiles (SAM), anti-tank guided missiles (ATGM), underwater weapons (torpedoes), air-borne products and allied defence equipment, such as launchers, counter measures dispensing system (CMDS) and test equipment. It is the prime production agency for India's guided missiles and torpedoes, and DRDO's co-development partner for next-generation SAMs and ATGMs. Since its inception, BDL has been working in collaboration with DRDO & foreign Original Equipment Manufacturers (OEMs) for manufacture and supply of various missiles and allied equipment to Indian Armed Forces. The company is continuously engaged in new product development and upgradation of existing products to meet customer requirements. The market for guided missiles and torpedoes is expected to gain significant traction with India modernising its armed forces. BDL being the key supplier of guided missiles and torpedoes to Indian Armed Forces is expected to be a big beneficiary in terms of order inflows.

Order book of the company as of Sept'23 stood at Rs 20,766cr (9.6x TTM revenue) which is executable in the next 4-5 years. BDL's guided missile portfolio forms more than 55% of India's guided missile and torpedo market which is expected to reach USD ~25bn by CY26. Such large order book provides headroom for growth over the next 3-4 years. Going ahead, we expect execution to pick up in H2FY24 and FY25E.

BDL has built in-house R&D capabilities primarily focusing on Design & Engineering activities and the thrust is to explore tie-up with OEMs for new missiles and underwater weapons for potential Transfer of Technology. It has been focusing on concept of indigenization across its programs and all efforts are put to maximize the indigenous content. BDL has currently three manufacturing units, out of which two are located in Telangana State (Hyderabad, Bhanur) and one Andhra Pradesh (Visakhapatnam). As a part of its expansion plan, BDL is setting up three more units at Ibrahimpatnam (Telangana), Amravati (Maharashtra) and Jhansi (UP) to cater to the growing demands of the Armed Forces. This facility would further strengthen the capability to deliver world class weapon systems as it backward integrates its operations.

### Valuation & Recommendation:

BDL benefits from GOI's thrust on indigenous guided weapon system production supporting healthy order pipeline and revenue visibility. On the back of its focus on indigenisation (more than 90% for major missile) with strong vendor network complemented by its product life cycle support and refurbishment services; BDL has established strong market position which would make a case for consistent order flow. The negative import list and five positive indigenisation list includes guided missiles that will further strengthen BDL's order book in the coming years. BDL is currently exporting its lightweight torpedoes and intends to offer other products such as Akash SAMs, heavyweight



torpedoes and countermeasure dispensing systems. To modernise its armed forces and reduce dependency on imports, several initiatives have been taken by the government to encourage 'Make in India' policy and Atmanirbhar Bharat. BDL has a strong manufacturing base and execution capabilities to capitalise on these tailwinds. Increased R&D spends would enable the company to launch new products and fortify its presence in guided missiles market.

BDL intends to leverage its experience to develop new products such as new-generation SAMs, ATGMs, and heavyweight torpedoes which would improve its topline. Strong revenue visibility backed by a robust order book, healthy order pipeline, Government's thrust on defence modernization through indigenization, export focus and internal efficiency is likely to add fuel to earnings growth. Product innovation and MOUs gives comfort of the future growth trajectory. We expect revenue/EBITDA/PAT to grow at CAGR of 29.2%/42.5%/41.3% over FY23-26E.

**We think the base case fair value of the stock is Rs 1274 (26.5x Sept' 25E EPS) and the bull case fair value is Rs 1394 (29x Sept' 25E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 1147-1171 (24.2x Sept' 25E EPS) and add more on dips to Rs 1023-1043 band (21.5x Sept' 25E EPS).**

### Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY-%	Q1FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	616	535	15.2	298	106.8	2,817	2,489	3,202	4,250	5,376
EBITDA	134	94	42.8	-33	-510.7	726	408	630	886	1,184
PAT	147	76	94.0	42	251.1	534	352	619	766	996
Adjusted PAT	147	76	94.0	42	251.1	500	352	619	766	996
EPS (Rs)	8.0	4.1	94.0	2.3	252.2	27.3	19.2	33.7	41.8	54.3
RoE-%						17.5	11.3	18.0	19.6	22.0
P/E (x)						42.5	60.3	34.4	27.7	21.3
EV/EBITDA (x)						26.7	42.6	26.5	18.3	13.3

(Source: Company, HDFC sec)

### Q2FY24 Result Review:

- BDL's revenue was up by 15.2% YoY to Rs 616 crore in Q2FY24. EBITDA grew by 42.8% YoY to Rs 134 crore and EBITDA margin stood at 22% in Q2FY24 vs. 17.7% in Q2FY23.
- The company reported net profit growth by 94% YoY to Rs 147 crore, supported by higher other income in the quarter. Other income increased to Rs 78 crore in Q2FY24 vs. Rs 45 crore in Q2FY23. Net profit margin stood at 24.1% in the quarter vs. 14.3% in Q2FY23.
- The order book stood strong at Rs 20,766cr (9.6x TTM revenue) as of Sept'23. New orders received Rs 1659 crore in H1FY24.



## Key Triggers:

### **Key supplier of guided missile products to the GOI:**

BDL has been of strategic importance to Government of India, as it is the prime production agency under India's Integrated Guided Missile Development Programme (IGMDP), supplying next generation ATGMs (Anti-Tank Guided Missiles) and SAMs (Surface-to-Air Missiles) with DRDO (Defence Research and Development Organisation) as its co-development partner. The company is the exclusive service provider for indigenously developed guided missiles such as Akash surface-to-air missiles and Konkur anti-tank guided missiles. BDL has built-up in-house R&D capabilities primarily focused on design & engineering activities.

BDL, with the support of DRDO, has been manufacturing various types of indigenously designed and developed missiles and underwater weapons. It has produced the Akash Weapon system, a Surface-to-Air indigenous missile, involving of a large number of supply chain partners from the industry. Similarly, Heavy Weight Torpedo and Light Weight Torpedos developed by NSTL, DRDO, are being manufactured by BDL at its Visakhapatnam Unit. BDL is set to produce the world class 'Beyond Visual Range' Astra Weapon System for the Indian Armed Forces.

GOI contributes more than 75% of its topline in last four years. The company benefits from GOI's thrust on indigenous guided weapon system production supporting healthy order pipeline and revenue visibility. On the back of its focus on indigenisation (more than 90% for major missile) with strong vendor network complemented by its product life cycle support and refurbishment services; BDL has established strong market position which led to consistent order flow.

### **Beneficiary of growing guided missiles & torpedoes market:**

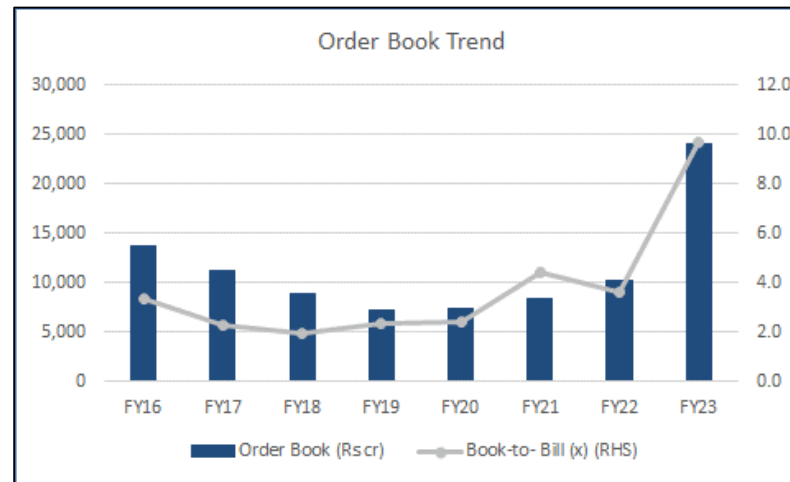
BDL's guided missile portfolio - surface-to-air missile (SAM), anti-tank guided missiles (ATGM), underwater weapons (torpedoes) and air-to-air missiles (AAM) - forms more than 55% of India's guided missile and torpedo market which is expected to reach USD ~25bn by CY26 (Source: Frost & Sullivan). The market for guided missiles and torpedoes is expected to gain significant traction with India modernising its armed forces. BDL being the key supplier of guided missiles and torpedoes to Indian Armed Forces is expected to be big beneficiary in terms of order inflows.

Recent order for Akash Weapon Systems for 3rd & 4th Regiments of Army (Rs 8161cr), order of ASTRA air-to-air missiles (Rs 2971cr) strengthens its dominance in this space. The Russia-Ukraine skirmish has demonstrated the importance of ATGMs – for both air and land modes. Committed liabilities and planned missiles procurement on air defence system; modernization and refurbishment of missile systems used by Armed Forces; and missile procurements for new programs such as LCA Tejas (upgraded version), Next Generation Missile Corvette, Project 17A (frigates) & Project 75I (diesel electric submarines with air independent propulsion) would continue to drive demand. Domestic manufacturers (BDL, BEL), through their R&D focus and cost efficiencies have excelled in manufacture of various types of surface-to-air missiles. Given the Government's thrust on indigenous missile development program and being DRDO's production agency; BDL will maintain steady order inflows going ahead.



### Robust Order book with strong project pipeline:

BDL's order book as of Sept'23 stood at Rs 20,766cr mainly comprising Akash, ATGMs, Konkurs, CMDS. Current order book provides visibility of at least 4 years, with its book-to-bill at 9.6x (based on TTM revenue). In FY23, the company received orders over ~Rs 13,500cr. The company has a strong pipeline of orders which includes Vertically Launched Short Range Surface to Air Missile (VLSRSAM), Medium Range Surface to Air Missile (MRSAM) from Indian Navy, helicopter launched Anti-Tank Guided Missile (Helina), Smart Anti - Airfield Weapon (SAAW), Mistral, Advanced Short Range Air-to-Air Missile (ASRAAM). It intends to leverage its experience to develop new products such as new-generation SAMs, ATGMs, and heavyweight torpedoes, which would further improve its order flows going ahead. BDL signed 14 MoUs with different entities during Def Expo 2022 and 5 MOUs during Aero India 2023. Product innovation and MOUs gives comfort of the future growth trajectory.



### Key order details, as on March 31, 2023:

Date	Details	Amount (Rs Cr)
02-Jan-21	Received Konkurs-M ATGM order along with launchers and test equipments	633
01-Mar-21	Supply of MRSAM Missile Rear Sections for Indian Air Force deliverables	373
19-Mar-21	Signed a contract for production and supply of Milan-2T Anti-Tank Guided Missiles	1,188
08-Jul-21	Signed contract for supply of Akash Missile to IAF	499
17-Nov-21	Signed a contract for Design, Development, Manufacture, Supply and Support of CMDS	171
02-Dec-21	Signed a contract for Refurbishment of IGLA - 1M missiles.	471
02-Feb-22	Signed Contract for Supply of Konkurs-M Anti-Tank Missiles to Indian Army	3,132
31-May-22	Signed a contract with Ministry of Defence for supply of ASTRA MK-I Beyond Visual Range (BVR) Air to Air Missile and associates equipments to Indian Air Force & Indian Navy	2,971
20-Feb-23	Export Order	2050
30-Mar-23	Akash Weapon Systems for 3rd & 4th Regiments of Army	8161

(Source: Company, HDFC sec)

Successful trials completion of Akash Next-Generation (NG), MPATGM, NAG ATGM, Helina (helicopter-launched ATGM) and QRSAM in last two fiscals makes a case for better order flows. New version of Akash Missile- "Akash Prime" has been successfully tests fired from integrated Test Range (ITR). Development trials for Vertically Launched Short Range Surface to Air Missile (VL SRSAM) is under progress. DRDO successfully completed trials for Quick Reaction Surface to Air Missile (QR SAM). Akash SAM, Astra AAM, NAG, Ampgha ATGMs and VSHROD are likely to improve its order pipeline. BDL being the prime manufacturer of missiles and torpedoes; it would receive orders in relation to refurbishment over the years. The negative import list (which includes Advanced light-weight torpedoes, Ship-based MRSAM, Ship-based



vertical launched short-range surface-to-air missile) and five positive indigenisation list includes guided missiles that strengthens BDL’s order pipeline in the coming years. Also healthy traction in the export market will drive order inflow in future.

**Well positioned to capture Export Opportunity:**

BDL is the prime production agency for projects under India’s Integrated Guided Missile Development Programme (IGMDP). The Government steps to reduce imports, increase indigenous manufacturing of major defence equipments and gradually increasing exports in the defence sector is a catalyst for DPSUs like BDL. The GOI has set ambitious annual export target of Rs 35,000cr by FY25-end from current ~Rs 12,000cr. The company is actively exploring export markets; it has bagged export orders for supply of Light Weight Torpedoes to friendly foreign countries. It also bagged another export order for supply of CMDS to Airbus, Spain. BDL received an export order worth USD 255mn (~Rs 2200cr). The total export order book as of Sept 30, 2023 stood at Rs 2600 crore vs, Rs 2588cr as of May 31, 2023.

The company has received clearance from Cabinet Committee on Security (CCS) for supply of Akash Weapon systems to nine friendly foreign countries. It has received export leads from some countries expressing interest in procuring the Missile. Apart from the Akash missiles, the recently inducted Astra missiles are expected to garner interest from foreign countries. The company is also aiming to expand its footprints by offering Air to Air Missiles, Anti-Tank Guided missiles, Heavy Weight Torpedo, CMDS, underwater weapons and Counter Measure Systems. The company has also entered into MoUs/JVs with foreign manufacturers under the offset policy and technology transfer to develop products for the international and domestic markets. BDL has received leads from 21 countries for various products and the company is focusing on converting them into orders.



(Source: Company, HDFC sec)

Government’s focus on exports of indigenous defence products has increased. MoD cleared many defence equipment for exports including the indigenous LCA Tejas, artillery guns, battle tanks and missiles, anti-tank mines and explosives. The approved list includes indigenous SAM Akash Missile, ATGM Nag and Brahmos weapon system, which is manufactured by the company. An enhanced missiles portfolio will give the company larger product bandwidth and showcase its capability across different missile systems. BDL is currently exporting its



lightweight torpedoes and intends to offer other products such as Akash SAMs, heavyweight torpedoes and countermeasure dispensing systems. Currently, exports contribute ~10% of overall revenue.

### **Partnership Agreements for Technology Transfer:**

Upholding its focus on technology upgradation, BDL has taken up several initiatives to be a part of global supply chain by entering into MoUs / agreements with foreign Original Equipment Manufacturers. The company has entered into MOUs with Roxel (France) for establishment of propulsion systems, Naval Group France & Rafael Advanced Defence System Ltd to manufacture under-water weapon system, MBDA (France) for domestic production of Mistral and ASRAAM missiles.

- BDL & ROXEL are in discussion to form a JV in India for setting up a facility to manufacture EOB propellants for Missiles and Rockets.
- BDL and Thales have signed a Teaming Agreement, wherein BDL will become a part of the STARStreak Air Defence system global supply chain thereby pushing its exports book.
- The company has also exchanged MoU with Tawazun Economic Council (TEC), UAE to explore new business opportunities in various areas of mutual interest in the field of defence.
- It also signed an MoU with Rafael for developing and manufacturing an Anti-Torpedo Decoy System for Indian Navy.
- BDL also entered into a licensing agreement with MBDA wherein MBDA will transfer the equipment and knowledge for establishing the facility for production Advanced Short Range Air-to-Air Missile (ASRAAM) missiles at its Bhanur Unit for domestic and exports through MBDA. The aim is to enter into tie-up with foreign OEMs as a part of its expansion programme.
- In the recent Defexpo 2022, BDL and Dassault Aviation Pvt Ltd have entered into an MoU for Integration of BDL Weapon Systems like Astra & Smart Anti-Airfield Weapon on Rafale Aircraft.
- BDL has also signed MoU with other organizations which include Ashok Leyland Defence Systems Limited, Mahindra Defence Systems, Newspace Technologies etc.
- BDL has entered into MoU with Thales for setting up manufacturing facilities for Laser Guided Rocket and its major components in India. It signed 10 MoUs during the Aero India show in 2023. This will bring some new technologies to India via Transfer of Technology (ToT) agreements, that were previously not available in the country.

### **New facilities to aid execution of future orders:**

BDL currently has three manufacturing units in Hyderabad, Bhanur (Telangana) and Vishakhapatnam (Andhra Pradesh). 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. Vishakhapatnam unit is engaged in the manufacture of light weight torpedoes, the C-303 anti-torpedo system, countermeasures and spares.



### Facilities and its products specialisation

Location	Products
Hyderabad, Telangana	SAMs, Milan 2T ATGMs, countermeasures, launchers and test equipment.
Bhanur, Telangana	Konkurs – M ATGMs, the INVAR (3 UBK 20) ATGMs, launchers and spares
Vishakapatnam, AP	Light weight torpedoes, the C-303 anti torpedo system, countermeasures and spares
Ibrahimpattam, Telangana	SAMs
Amravati, Maharashtra	Very Short Range Air Defence Missiles (VSHORADMs)
Jhansi, UP	Anti – Tank Guided Missiles, Surface to Air Missiles, Air-to-Air Missiles, Air to Surface Missiles, Underwater Weapons & Counter Measures Systems

(Source: Company, HDFC sec)

The company is in expansion phase and is in the process of setting up facilities at Ibrahimpattam (Telangana), Amravati (Maharashtra) & Jhansi (UP). Its manufacturing facilities at Ibrahimpattam (expected to be start manufacturing from Q2FY25) and Amravati would manufacture SAMs (including a new generation) and VSHORAD (Very Short-Range Air Defence) missiles respectively.

The company is also setting up a new unit at Jhansi in the UP Defence Corridor, which will be its sixth manufacturing unit, where it will manufacture Propulsion System which is used in all Anti-Tank Guided missiles and futuristic missiles. This facility would start commercial operation with the next two years and would further strengthen the capability to deliver world class weapon systems as it backward integrates its operations. BDL is also setting up Seeker Facility Centre and Warheads Production Facility in its existing units.

BDL has also started enhancing and upgrading its current facilities with modern technologies and processes like robotics-operated machines, surface-mounted devices, and high-performance computing systems. The company has been constantly upgrading its manufacturing technologies and processes to state-of-the-art sophistication including industry 4.0, robotics-operated workshops, latest surface-mounted device assembly lines. It has always maintained highest quality standards in its products by adopting to best QA practices like AS 9100, zero defect, etc. This has resulted in reduction in production costs, benchmarking of productivity norms, modernisation of management system, and reduced dependence on imported technology.

### Focus on R&D and new tech products:

BDL is increasing its in-house R&D activities complementing the development programs of DRDO to expand its product range and mitigate dependence on foreign companies for imports. The company is continuously engaged in new product development and upgradation of existing products to meet customer requirements. It has a strong in-house R&D division with talent drawn from premier institutions. The division is leveraging emerging technologies like Artificial Intelligence (AI) to develop state-of-the-art weapons for the Armed Forces. The Missile Development group set up within the in-house R&D Division is working on Next Generation Missile Programs.





Historically, the company spends on R&D is low as the production process is co-developed with DRDO or through licensing agreement of Transfer of technology with foreign OEMs. However, with push for indigenisation and increasing private sector participation in the defence sector, BDL has increased its R&D activities in the recent years to enhance its product offerings. BDL's R&D spend as a % of sales increased to 6.1% in FY23 from 0.8% in FY16. The company expects to maintain R&D investment in the range of 2-4% of sales.

The company has established various technological labs such as RF labs, laser labs, aerodynamic labs and seeker labs to develop seeker technologies. It has successfully developed the 3rd generation man-portable ATGM (Amogha-III) and is now considering the development of a low-cost air-launched variant. The company is ready for QRSAM production as limited validation trials got over in Apr'23.

- BDL launched two new products – Dishani and Garudastra, which could see traction in the coming years.
- It earlier introduced Konkurs Missile Test Equipment and Konkurs Launcher Test Equipment.
- It launched three new products in Def Expo 2022 - Anti-Tank Guided Missile for MBT ARJUN; Sangramika (a Light Weight Vehicle Mounted Anti-Tank Guided Weapon System) and the Sanharika (an Armoured Vehicle mounted Laser Guided Short Range Anti-Aircraft Weapon System).
- BDL launched three new products - Vertical Launched – Short - Range Surface-to-Air Missile or VLSRSAM, Semi-Active Laser Seeker Homing Anti-Tank Guided Missile for BMP –II and Drone Delivered Missile (JISHNU) at Aero India – 2023.

Increased R&D capabilities would enable the company to diversify its product portfolio and fortify its presence in guided missiles market. BDL intends to leverage its experience to develop new products such as new-generation SAMs, ATGMs, and heavyweight torpedoes which improve its topline.



## Significant Opportunities

Future Programs	Expected Order Realisation	Association with
QRSAM	FY25-26	DRDO
Akash NG SAM	FY26-27	DRDO
VLSRSAM	FY26-27	DRDO
Dhruvastra/Helina ATGM	FY25-26	DRDO
NAG ATGM	FY25-26	DRDO
MPATGM	FY26-27	DRDO
LRLACM	FY27-28	DRDO
SAAW (Smart Anti Air Field Weapon)	FY24-25	DRDO
EHWT (Electric Heavy Weight Torpedo)	FY26-27	DRDO
ALWT (Advanced Light Weight Torpedo)	FY25-26	DRDO
MIGM(Multi Influence Groung Mines)	FY25-26	DRDO
SONOBUOY	FY25-26	DRDO
ULPGM	FY24-25	DRDO
AMOGHA III ATGM	FY26-27	In house R&D
Drone Field Missile	FY26-27	In house R&D
Drone Field (3.5kg) Bomb	FY24-25	In house R&D
Drone Field (1kg) Bomb	FY24-25	In house R&D
LBRM	FY23-24	Foreign Collaborations
MISTRAL	FY26-27	Foreign Collaborations
ASRAAM	FY26-27	Foreign Collaborations
Spike ER2	FY24-25	Foreign Collaborations
GRAD Rockets (122mm)	FY25-26	Foreign Collaborations
LGR (70mm)	FY24-25	Foreign Collaborations

(Source: Company, HDFC sec)

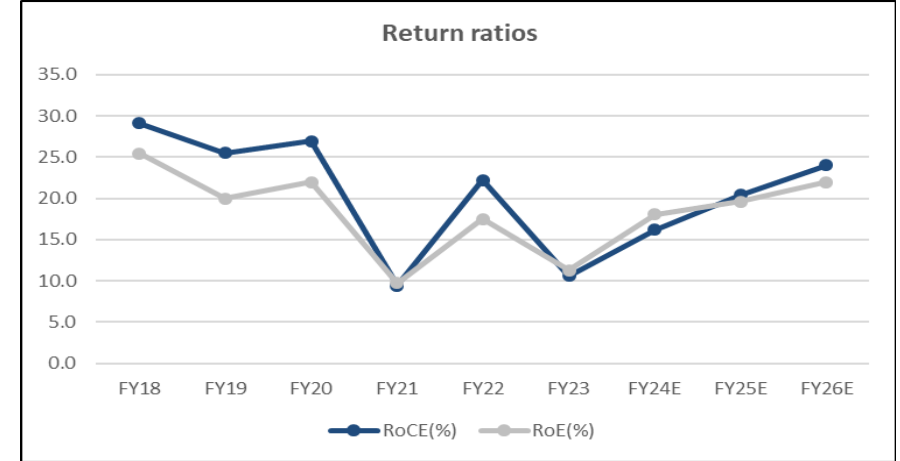
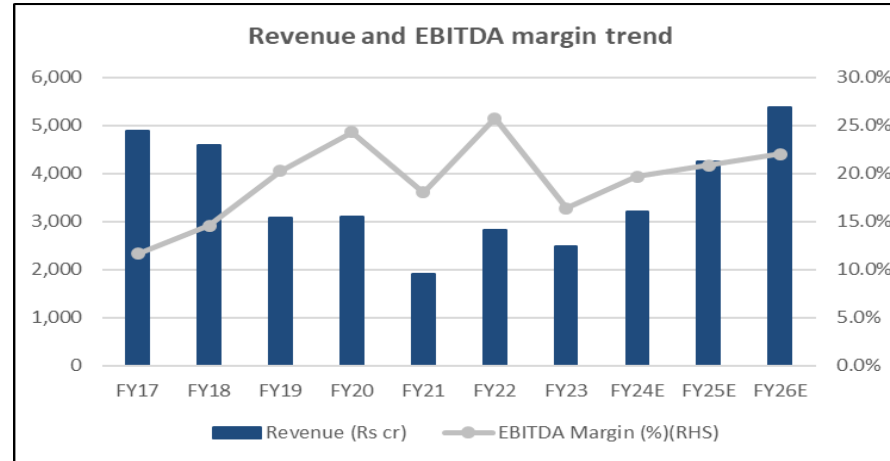
### Better execution to generate revenue and margin profile going ahead:

BDL reported subdued topline growth in the last five fiscal given weak ordering activity. Since FY22, order pipeline is gaining momentum as its order book stood at Rs 24,021cr as at Mar'23. The company recorded topline of Rs 2489.4cr in FY23, de-growth of 11.6% YoY. Revenue growth was muted due to electronics components supply issues.

Operating margins contracted ~935bps YoY to 16.4% due to unfavorable product mix, higher R&D expenses and negative operating leverage. Supply chain normalization coupled with capacity expansion are likely to support its revenue trajectory going forward. The company targets to record revenue of Rs 3200cr in FY24E on the back of strong order book, with margin at 20-23% in FY24E (including other income).



Govt's thrust on defence indigenization and modernization, focus on exports and collaborations with foreign OEMs would improve topline going ahead. In a recent TV interview, the management highlighted that FY25E and FY26E could see much of the execution; with revenue expected to reach Rs 5,000cr in FY25 and Rs 6,000cr in FY26. The company reported improving margin profile supported by cost optimisation due backward integration and development of in-house import substitute products, indigenized technology with local supply chains and R&D focus.



(Source: Company, HDFC sec)

### Industry Insights & Overview:

#### Industry Insights:

India is at 3rd position in world in terms of military spending with \$76.6 billion in 2021; and it is 2.7% spending as a share of Indian GDP (source: SIPRI report). Although India's defence spend is third largest in the world, it stands at ~2% of its GDP, which is lower compared to other top spenders. Defence capex has clocked 8% CAGR over the last decade with most of the key components continue to get imported. Thrust on domestic procurement is likely to boost the Indian DPSUs and private companies, which have significantly enhanced capabilities across the defence value chain.

In the recent years, significant impetus has been given by the Government to develop and strengthen the Aerospace and Defence Industry in the country. The Defence Acquisition Procedures (DAP-2020) which promotes higher indigenous content in the Defence procurements has been released. Positive lists of Defence equipment to be procured within the country has been released. Significant thrust has been given to the indigenisation of Defence equipment under "Aatm Nirbhar Bharat" movement to reduce Defence import bill and make the country self-reliant in Defence.

Border tensions with neighbouring countries and recent geo-political events stress on the need to reduce obsolescence levels of the Armed Forces; and the acquisition of new war fighting capabilities and force multipliers. The demand is likely to be strong for radars, electronic



warfare systems, electro-optics, missiles and missile systems. A regular follow up on future negative lists and sequential increase in budgetary allocation to domestic industry remains a strong tailwind for the industry players.

### Measures taken by GOI:

The DPEPP-2020 (Defence Production and Export Promotion Policy) has provided strong push to India's defence production as well as promoting exports. With the "Atma Nirbhar Bharat" initiative, the focus is directed towards self-reliance and exports through active participation of public and private sectors. The government envisages defence production to rise to USD 25bn by FY25 from USD 10.8bn in FY21, driven by Acceptance of Necessity stage at Rs 4tn, import substitution, offset policy and strategic partnership model (to offer indigenous production). A defence export strategy has been formulated with a view to facilitate Defence Public Sector Undertakings (DPSU) and private defence players in exploring business opportunities abroad (export of USD 5 bn by FY25).

The Government of India has announced various policies and measures under the Make in India and Atmanirbhar Bharat initiatives. The policies and measures include - positive indigenisation list, SRIJAN portal, DAP-2020, Increasing FDI limit, policy for indigenisation of components, negative import list, inter-governmental agreements with foreign nations among others. There has been structural shift in the defence budget with increased allocation for modernized indigenous platforms; as the recent announcement of increasing domestic procurement budget share to 75% for FY24 from 68% for FY23. The increase in domestic procurement will directly benefit domestic players including defence PSUs and private players in terms of more order inflows.

Defence Acquisition Procedure (DAP-2020): GoI has released DAP-2020 to streamline India's defence procurement system and promote the 'Make in India' initiative in defence manufacturing. The policy includes procurement plan documents, several new chapters and procurement categories, and a revamped offset guideline. It also puts emphasis on higher indigenous content in procurement, and faster acquisition.

Positive Indigenisation: The MoD notified the fifth positive indigenisation list on October 04 ,2023 comprising 98 items, including highly complex systems, sensors, weapons & ammunition. The fourth Positive Indigenisation List in May 2023 follows three previous PILs that were published in Dec'21, Mar'22, and Aug'22, respectively. The lists intend to implement the ban in a staggered manner up to Dec'25; a big step to promote indigenisation in the defence sector. Orders worth more than Rs 2,10,000 crore are likely to be placed in the industry in the next five years as a part of items covered in the third list. Since the notification of the first and second lists, contract for 31 projects worth Rs 53,839cr have been signed by the Armed Forces. Acceptance of Necessity (AoNs) for 83 projects worth Rs 177,258cr have been accorded. In addition, cases worth Rs 293,741cr will be progressed in the next 5-7 years. The negative list will work in tandem with the existing 15 years 'Long Term Integrated Procurement Plan' providing the industry a roadmap to invest, localise technologies and develop eco-systems.

Increasing FDI limit under automatic route to 74%: The GoI has increased the FDI limit in defence sector from 49% to 74% under automatic route for items with 50% indigenous production, The MoD is trying to increase private sector participation in defence sector by encouraging technical collaborations between DPSUs and private players. Also, the GoI has increased defence licence to large private players.



**Negative import list (staggered ban):** The defence ministry has approved another list that progressively bans imports of 780 sub-systems — components or 'line replacement units (LRUs)' of weapon systems and platforms — which are being manufactured by defence PSUs. The list released by the MoD comprised items that will be taken up for indigenisation, wherein Bharat Dynamics (BDL) will indigenise items for Astra missiles.

### **Guided Missile & Torpedo Market:**

The suppliers of Indian guided missile and torpedo market includes: DPSUs, foreign companies, and private sector in collaboration with foreign companies. At present, the Indian missile market is dominated by DPSU-produced missiles and foreign solutions. The government is focused on indigenising missile production in order to extricate any external dependencies. The goal is to aim for complete in-house missile production and maintenance. 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, with the support of DRDO, has been manufacturing various types of indigenously designed and developed missiles and underwater weapons. BDL is the key manufacturer and supplier of SAMs, torpedoes, ATGMs in India. BDL's guided missile portfolio forms more than 55% of India's guided missile and torpedo market which is expected to reach USD ~25bn by CY26.

The Atmanirbhar Bharat a mission initiated by Government of India has given momentum to the indigenization efforts of the Company. BDL has been strengthening its in-house R & D capabilities to take up product innovation in order to mitigate Indian armed forces' product dependency on foreign countries. BDL has always been focusing on concept of indigenization across its programs and all efforts are put to maximize the indigenous content. In the foreign collaboration programs that BDL has entered into, the company has been successful in indigenizing items, over and above the contracted indigenization content percentage with the support of Original Equipment Manufacturers (OEMs). The average percentage of indigenization for its products is between 80 to 90%. Moreover, the company is setting up greenfield plants (Ibrahimpattanam, Amravati, Jhansi) to manufacture missiles.

### **Concerns:**

**Higher dependence on single customer (Ministry of Defence):** BDL is primarily dependent on a single customer, the Indian armed forces through Ministry of Defence, which contributes on an average more than 80% of its topline in last four fiscals. Although its export book is increasing, it still remains nascent. Order flows of the company are directly tied to the capital allocations made by the Ministry of Defence to the armed forces. Due to the high concentration from GOI orders, BDL's revenue generation and cash flows are vulnerable to delays in project execution or final payment clearance in some cases. A decline or reprioritisation of the Indian defence budget, reduction in their orders, termination of contracts or failure to succeed in tendering projects would have adverse impact on its business. Current stretched fiscal situation has a bearing on the defence budget.



**Increased Competition:** The company operates in a competitive environment from exiting global players based in Europe, US and Russia (Boeing, Raytheon, Lockheed Martin, Rafael Advanced Defence Systems Limited and Roketsan). It also faces competition from private players like Adani Defence and Aerospace, L&T, Bharat Forge etc. Contracts from MoD are generally awarded to the company on the basis of nomination; and BDL is the primary agency supplying next generation ATGMs and SAMs. Increase in FDI limit from 49% to 74% under the automatic route would attract competition from few private players.

**Regulatory risk:** The missile manufacturing industry is heavily regulated by both Indian and international authorities. Any significant increase in cost due to changes in regulations in the defence / missile manufacturing industry may adversely affect its operations. Apart from the standards and requirement, BDL has to obtain and maintain a number of statutory and regulatory permits and approvals. Any failure in compliance of applicable regulations could be subject to penalties, revocation of permits; which would adversely affect its business.

**Relies on DRDO designed projects:** BDL has been working as co-development partner with DRDO in many projects; and is dependent on DRDO for technical modifications for orders. Although in the recent years, BDL has focused on improving R&D team and infrastructure; its R&D expenditure in terms of sales is much lower compared to its DPSU peers.

**Divestment of Government's stake:** The GOI currently hold 74.9% stake in the company. With its focus on achieving divestment target, the GOI could come out with offer for sale to reduce the stake; which could negatively impact stock prices.

### About the company:

Established in 1970, Bharat Dynamics Ltd (BDL), is a Government of India enterprise under the Ministry of Defence. It is engaged in manufacturing of surface to air missiles (SAM), anti-tank guided missiles (ATGM), underwater weapons (torpedoes), air-borne products and allied defence equipment, such as launchers, counter measures dispensing system (CMDS) and test equipment. The company also offers product life cycle support and refurbishment / life extension of vintage missiles. It is the prime production agency for guided weapon systems for the Indian defence forces. BDL has currently three manufacturing units, out of which two are located in Telangana State (Hyderabad, Bhanur) and one Andhra Pradesh (Visakhapatnam). As a part of its expansion plan, the company is setting up three more units at Ibrahimpatnam (Telangana), Amravati (Maharashtra) and Jhansi (UP) to cater to the growing demands of the Armed Forces.

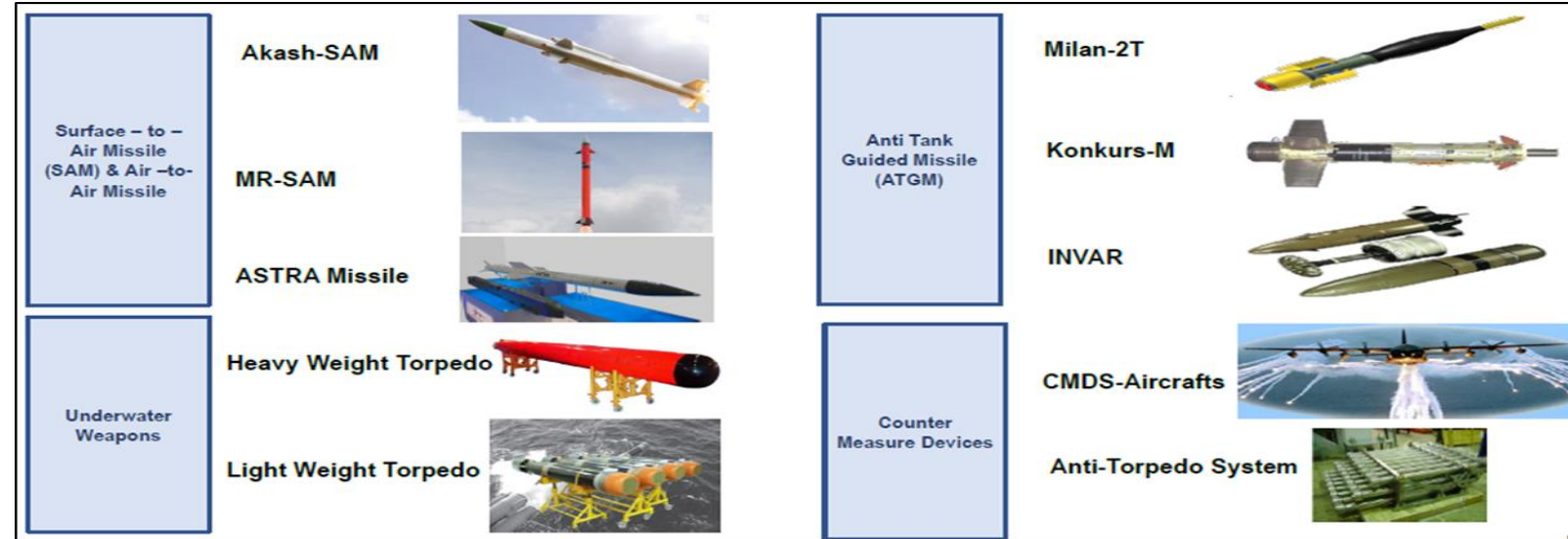
Over the years, BDL has grown into a multi-product, multi-customer, multi-located enterprise producing defence equipment meeting international quality standards. The company has employee strengths of 2466 as of Sept 30, 2023.

Since its inception, BDL has been working in collaboration with DRDO & foreign Original Equipment Manufacturers (OEMs) for manufacture and supply of various missiles and allied equipment to Indian Armed Forces. It has been working as co-development partner with DRDO in many projects including Nag, Astra, MPATGM, SAAW, QRSAM, AKASH-NG etc. BDL has built in-house R&D capabilities primarily focussing



on Design & Engineering activities and thrust is to explore tie-up with OEMs for new missiles and underwater weapons for potential Transfer of Technology. The company is also aiming to expand its footprints in the international market by offering Air to Air Missiles, Anti-Tank Guided missiles, underwater weapons and Counter Measure Systems in addition to Akash Missiles to friendly countries. Order book of the company as at Sept 30, 2023 stood strong at Rs 20,766cr which is executable in the next 4-5 years.

### Strong Product Suite:



(Source: Company, HDFC sec)

### Peer Comparison:

Company	Mcap (Rs cr)	Revenue-cr				EBITDA Margin-%				PAT-cr			
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Bharat Dynamics Ltd	21,247	2,489	3,202	4,250	5,376	16.4	19.7	20.8	22.0	352	619	766	996
Bharat Electronics Ltd	1,02,593	17734	20558	23372	26284	23.0	22.9	23.1	23.5	2984	3490	4059	4587
Hindustan Aeronautics Ltd	1,49,826	26927	29196	32633	36946	24.8	24.8	24.5	24.7	5828	5474	6013	6852

Company	RoE-%				P/E-x			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Bharat Dynamics Ltd	11.3	18.0	19.6	22.0	60.3	34.4	27.7	21.3
Bharat Electronics Ltd	22.8	23.1	25.0	24.9	34.2	29.6	25.8	22.9
Hindustan Aeronautics Ltd	27.2	21.5	21.4	22.3	25.7	27.1	24.3	21.4

(Source: Bloomberg estimates, Company, HDFC sec)



## Financials

### Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>2817</b>	<b>2489</b>	<b>3202</b>	<b>4250</b>	<b>5376</b>
Growth (%)	47.2	-11.6	28.6	32.8	26.5
Operating Expenses	2091	2081	2572	3365	4192
<b>EBITDA</b>	<b>726</b>	<b>408</b>	<b>630</b>	<b>886</b>	<b>1184</b>
<b>Growth (%)</b>	<b>110.6</b>	<b>-43.8</b>	<b>54.4</b>	<b>40.5</b>	<b>33.7</b>
<b>EBITDA Margin (%)</b>	<b>25.8</b>	<b>16.4</b>	<b>19.7</b>	<b>20.8</b>	<b>22.0</b>
Depreciation	90	77	75	86	96
<b>EBIT</b>	<b>636</b>	<b>331</b>	<b>555</b>	<b>799</b>	<b>1088</b>
Other Income	111	155	286	240	256
Interest expenses	3	5	3	3	4
<b>PBT</b>	<b>744</b>	<b>482</b>	<b>838</b>	<b>1036</b>	<b>1340</b>
Tax	210	130	220	270	344
PAT	534	352	619	766	996
<b>Adjusted PAT</b>	<b>500</b>	<b>352</b>	<b>619</b>	<b>766</b>	<b>996</b>
<b>Growth (%)</b>	<b>94.0</b>	<b>-29.6</b>	<b>75.6</b>	<b>23.8</b>	<b>30.0</b>
EPS	27.3	19.2	33.7	41.8	54.3

### Balance Sheet

As at March Rs Cr	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCE OF FUNDS</b>					
Share Capital	183	183	183	183	183
Reserves	2847	3028	3463	3991	4693
<b>Shareholders' Funds</b>	<b>3031</b>	<b>3212</b>	<b>3647</b>	<b>4174</b>	<b>4877</b>
Long Term Debt	5	4	4	4	4
Net Deferred Taxes	-57	-56	-56	-56	-56
Long Term Provisions & Others	947	3251	4163	4039	4839
<b>Total Source of Funds</b>	<b>3926</b>	<b>6410</b>	<b>7757</b>	<b>8160</b>	<b>9663</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	874	809	868	907	936
CWIP	41	74	40	40	40
Other Non-Current Assets	69	133	96	98	124
<b>Total Non Current Assets</b>	<b>984</b>	<b>1016</b>	<b>1004</b>	<b>1044</b>	<b>1100</b>
Current Investments	0	0	0	0	0
Inventories	1654	1822	2193	2970	3829
Trade Receivables	304	185	307	349	442
Cash & Equivalents	1900	3859	4560	5019	5469
Other Current Assets	1665	1734	2194	2097	2579
<b>Total Current Assets</b>	<b>5523</b>	<b>7600</b>	<b>9254</b>	<b>10436</b>	<b>12319</b>
Short-Term Borrowings	1	1	1	1	1
Trade Payables	552	464	482	699	884
Other Current Liab & Provisions	2027	1740	2017	2620	2871
<b>Total Current Liabilities</b>	<b>2581</b>	<b>2206</b>	<b>2501</b>	<b>3320</b>	<b>3756</b>
Net Current Assets	2942	5394	6753	7116	8563
<b>Total Application of Funds</b>	<b>3926</b>	<b>6410</b>	<b>7757</b>	<b>8160</b>	<b>9663</b>





## Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	744	482	838	1,036	1,340
Non-operating & EO items	58	5	948	-126	774
Interest Expenses	-60	-107	3	3	4
Depreciation	90	77	75	86	96
Working Capital Change	-99	1,891	-657	97	-997
Tax Paid	-203	-218	-220	-270	-344
<b>OPERATING CASH FLOW ( a )</b>	<b>529</b>	<b>2,130</b>	<b>987</b>	<b>826</b>	<b>873</b>
Capex	-102	-108	-100	-125	-125
Free Cash Flow	427	2,022	887	701	748
Investments	0	0	0	0	0
Non-operating income	-471	-1,063	0	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-573</b>	<b>-1,171</b>	<b>-100</b>	<b>-125</b>	<b>-125</b>
Debt Issuance / (Repaid)	-1	-3	0	0	0
Interest Expenses	-2	-3	-3	-3	-4
FCFE	424	2,016	884	698	743
Share Capital Issuance/ (Buy Back)	0	0	0	0	0
Dividend	-145	-167	-183	-238	-293
Others	0	1	0	0	0
<b>FINANCING CASH FLOW ( c )</b>	<b>-149</b>	<b>-171</b>	<b>-186</b>	<b>-242</b>	<b>-298</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-192</b>	<b>788</b>	<b>701</b>	<b>459</b>	<b>450</b>

## Key Ratios

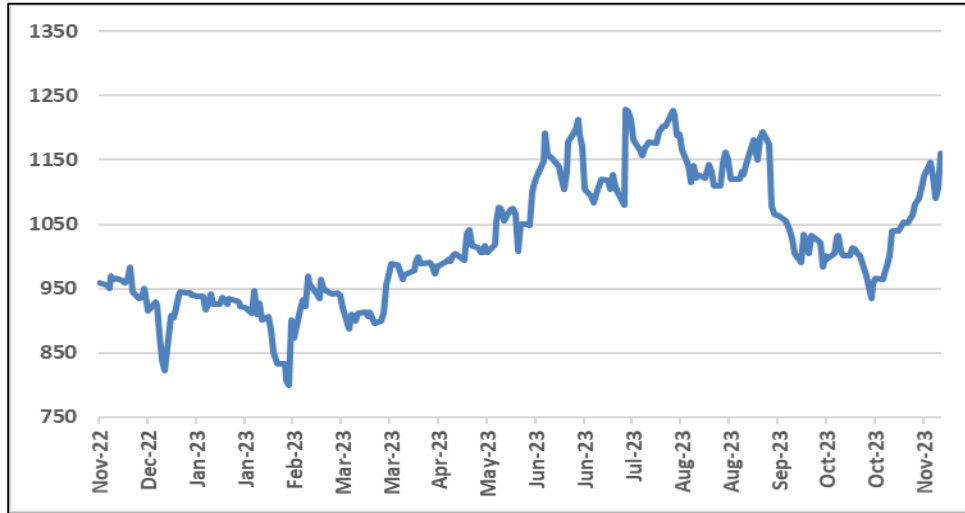
Particulars	FY22	FY23	FY24E	FY25E	FY26E
<b>PROFITABILITY RATIOS (%)</b>					
EBITDA Margin	25.8	16.4	19.7	20.8	22.0
EBIT Margin	22.6	13.3	17.3	18.8	20.2
PAT Margin	17.7	14.1	19.3	18.0	18.5
RoE	17.5	11.3	18.0	19.6	22.0
RoCE	22.2	10.6	16.2	20.4	24.0
<b>SOLVENCY RATIOS (x)</b>					
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
D/E	0.0	0.0	0.0	0.0	0.0
<b>PER SHARE DATA (Rs)</b>					
EPS	27.3	19.2	33.7	41.8	54.3
CEPS	32.2	23.4	37.8	46.5	59.5
Dividend	8.3	9.4	10.0	13.0	16.0
BVPS	165.4	175.2	199.0	227.8	266.1
<b>TURNOVER RATIOS (days)</b>					
Debtor days	41	36	28	28	27
Inventory days	198	255	229	222	231
Creditors days	84	75	54	51	54
<b>VALUATION (x)</b>					
P/E	42.5	60.3	34.4	27.7	21.3
P/BV	7.0	6.6	5.8	5.1	4.4
EV/EBITDA	26.7	42.6	26.5	18.3	13.3
EV/Revenues	7.1	7.0	5.3	3.8	3.0
Dividend Yield (%)	0.7	0.8	0.9	1.1	1.4
Dividend Payout (%)	30.4	48.7	29.6	31.1	29.5

(Source: Company, HDFC sec)



# Bharat Dynamics Ltd.

## One Year Price Chart



(Source: Company, HDFC sec)

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#### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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