

Bharat Dynamics Ltd

Incorporated in 1970, Bharat Dynamics Limited (BDL), a Government of India (GOI) Enterprise under the Ministry of Defense (MOD) was established in Hyderabad to be a manufacturing base for guided missiles and allied defense equipment. BDL, a Miniratna Category-I Public Sector Unit (PSU), is amongst the few industries in the world having capabilities to produce state-of-the-art guided weapon systems.

Healthy order book indicates strong revenue visibility: BDL current order book stands at ₹10,543cr, comprising the Akash Weapon System, LR SAM, MR SAM, INVAR (3 UBK 20) ATGM and the Konkurs-M ATGM. This puts the revenue visibility for next two years at 2.2x (on FY17 revenues of ₹4,832cr). Going forward, the strong order book will further help the BDL to boost its top-line.

Offering wide Range of Products: BDL is one of the leading defence PSUs in India, engaged in the manufacture of Surface to Air missiles, Anti Tank Guided Missiles, under water weapons, launchers, counter measures and test equipment. Additionally, BDL is also involved in the business of refurbishment and life extension of missiles manufactured. BDL is co-development partner with the DRDO for the next generation of ATGMs & SAMs, and capable of catering to India's emerging guided missile and torpedo requirement.

BDL to benefit from Make in India initiative: The government's new thrust towards Make in India seeks to fast-track defence procurements with indigenous manufacturing being given the highest priority. This would benefit the defence players like BDL.

Outlook & Valuation: In terms of valuations, the pre-issue P/E works out to 22.7x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to BDL's peers like Bharat Electron and Apollo Micro System (trading at 33.6x and 40.7x of its 1HFY2018 annualized earnings respectively). Further, BDL has a strong order book and revenue visibility, coupled with superior return ratios compared to peers. Hence, considering the above positive factors including growth in the defence industry, we recommend **SUBSCRIBE** on the issue.

Key Financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
Net Sales	2,841	4,079	4,833	1,806
% chg	-	43.6	18.5	-
Net Profit	444	562	490	173
% chg	-	26.7	(12.8)	-
OPM (%)	9.7	12.6	11.8	13.6
EPS (₹)	24.2	30.7	26.8	9.4
P/E (x)	17.7	14.0	16.0	-
P/BV (x)	4.7	4.2	3.5	-
RoE (%)	26.8	30.4	22.2	-
RoCE (%)	12.6	24.8	22.9	-
EV/Sales (x)	1.5	1.1	1.3	-
EV/EBITDA (x)	15.2	9.0	10.7	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Please refer to important disclosures at the end of this report

SUBSCRIBE

Issue Open: Mar 13, 2018

Issue Close: Mar 15, 2018

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹183.2cr

Fresh issue: Nil

Post Eq. Paid up Capital: ₹183.2cr

Issue size (amount): ₹961cr

Price Band: ₹413-428

Lot Size: 35 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹7570cr - **₹7844cr

Promoters holding Pre-Issue: 100.0%

Promoters holding Post-Issue: 87.75%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	87.7%
Others	12.3%

Amarjeet S Maurya










+022 39357600, Extn: 6831

amarjeet.maurya@angelbroking.com

Company background

Incorporated in 1970, Bharat Dynamics Limited (BDL), a GOI Enterprise under the MOD was established in Hyderabad to be a manufacturing base for guided missiles and allied defence equipment. Nurtured by a pool of talented engineers drawn from DRDO and aerospace industries, BDL began its journey by producing the 1st Generation Anti -Tank Guided Missile (ATGM) - the French SS11B1. On successful completion of the SS11B1 project, BDL embarked on production of 2nd generation ATGMs – the French MILAN-2 and Russian Konkurs. Currently BDL has been working closely with both the end-user and the OEMs in the upgradation of ATGMs to the class of tandem warhead ATGMs. The lead taken by the Nation to develop indigenous, sophisticated and contemporary missiles through the Integrated Guided Missile Development Program (IGMDP), gave BDL an opportunity to be closely involved in the program, wherein it was identified as the Prime Production Agency.

Exhibit 1: Journey of the company

Over Four Decades of experience in manufacturing missiles, countermeasures & its allied equipments		Awards & Recognitions	
Established as a PSU under the administrative control of the Ministry of Defence, Govt.	1970	 Raksha Mantri's Award for Excellence	2010
Upgradation of the Company from Schedule D PSU to Schedule C PSU	1986	 Global HR Excellence Awards 2011 – 2012 – Innovative HR Practices Award	2012
Upgradation of the Company from Schedule C PSU to Schedule B PSU	1992	 Raksha Mantri's Award for Excellence for Indigenization	2013
Gross sales crossed ₹10,000 million	2013	 Greentech Environmental Award – Silver Award in Engineering Sector for outstanding achievement in Environment Management	2014
Gross sales crossed ₹20,000 million	2015	 Indian Chamber of Commerce - PSE Excellence Award for Operational Performance Excellence	2015
Gross sales crossed ₹40,000 million	2017	 Golden Peacock Environment Management Award	2015
		 Raksha Mantri Award for Excellence	2015
		 Greentech HR Award, 2015 for the best HR Strategy	2015
		 Skoch BSE Award for Business Excellence	2017

Source: Company, Angel Research

Issue details

BDL is raising ~₹961cr through offer for sale of equity shares in the price band of ₹413-428. The company will dilute 12.3% (at upper price band) of its post-offer paid-up equity share capital.

Exhibit 2: Pre and Post IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	18,32,81,250	100.0%	16,08,29,297	87.7%
Others	-	-	2,24,51,953	12.3%
	18,32,81,250	100.0%	18,32,81,250	100.0%

Source: RHP, Note: Calculated on upper price band

Note: A discount of ₹10 per equity share is offered to Retail Investors & Employees.

Objectives of the Offer

Company's objectives of the offer are:

- to achieve the benefits of listing the Equity Shares on the Stock Exchanges.
- general corporate purposes

Outlook & Valuation

In terms of valuations, the pre-issue P/E works out to 22.7x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to BDL's peers like Bharat Electron and Apollo Micro System (trading at 33.6x and 40.7x its 1HFY2018 annualized earnings respectively). Further, BDL has a strong order book and revenue visibility, coupled with superior return ratios compared to peers. Hence, considering the above positive factors including growth in the defence industry, we recommend **SUBSCRIBE** on the issue.

Key Risks

- Delay in order inflow or execution of current order book can impact both the top-line and bottom-line.
- Increase in competition from other players can impact the business of BDL.

Income Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
Total operating income	2,841	4,079	4,833	1,806
% chg	-	43.6	18.5	-
Total Expenditure	2,566	3,566	4,265	1,561
Raw Material	2,000	2,818	3,222	1,132
Personnel	312	326	448	222
Others Expenses	253	421	594	206
EBITDA	275	513	568	245
% chg	-	86.7	10.7	-
(% of Net Sales)	9.7	12.6	11.8	13.6
Depreciation & Amortization	67	53	62	30
EBIT	208	460	506	215
% chg	-	120.9	10.0	-
(% of Net Sales)	7.3	11.3	10.5	11.9
Interest & other Charges	3	4	4	2
Other Income	439	385	230	75
(% of PBT)	68.2	45.7	31.4	26.0
Share in profit of Associates	-	-	-	-
Recurring PBT	644	841	732	288
% chg	-	30.6	(13.0)	-
Tax	200	279	242	115
(% of PBT)	31.1	33.2	33.0	40.1
PAT (reported)	444	562	490	173
% chg	-	26.7	(12.8)	-
(% of Net Sales)	15.6	13.8	10.1	9.6
Basic EPS (₹)	24.2	30.7	26.8	9.4
Fully Diluted EPS (₹)	24.2	30.7	26.8	9.4
% chg	-	26.7	(12.8)	-

Source: Company, Angel Research

Exhibit 3: Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
SOURCES OF FUNDS				
Equity Share Capital	115	98	122	92
Reserves & Surplus	1,538	1,753	2,090	1,539
Shareholders' Funds	1,653	1,851	2,212	1,631
Total Loans	-	-	-	-
Deferred Tax Liability	-	18	-	-
Total Liabilities	1,653	1,870	2,212	1,631
APPLICATION OF FUNDS				
Net Block	525	698	767	760
Capital Work-in-Progress	135	125	130	176
Investments	3	3	3	4
Current Assets	7,689	8,738	7,546	7,148
Inventories	1,476	2,058	2,251	2,159
Sundry Debtors	335	145	356	130
Cash	3,669	3,242	1,738	1,311
Loans & Advances	6	6	6	6
Other Assets	2,204	3,286	3,194	3,541
Current liabilities	6,759	7,771	6,388	6,654
Net Current Assets	930	967	1,158	493
Deferred Tax Asset	60	77	155	197
Total Assets	1,653	1,870	2,212	1,631

Source: Company, Angel Research

Exhibit 4: Cash Flow Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	1HFY18
Profit before tax	644	841	732	288
Depreciation	67	53	62	30
Change in Working Capital	(747)	(61)	(506)	754
Interest / Dividend (Net)	3	4	4	2
Direct taxes paid	(220)	(278)	(335)	(148)
Others	(347)	(275)	19	(50)
Cash Flow from Operations	(599)	284	(23)	876
(Inc.)/ Dec. in Fixed Assets	(291)	(216)	(136)	(70)
(Inc.)/ Dec. in Investments	354	365	139	65
Cash Flow from Investing	62	149	3	(4)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	0	(199)	0	(451)
Dividend Paid (Incl. Tax)	(61)	(125)	(124)	(1)
Interest / Dividend (Net)	0	0	(42)	0
Cash Flow from Financing	(61)	(324)	(166)	(451)
Inc./(Dec.) in Cash	(598)	109	(186)	420
Opening Cash balances	722	124	233	46
Closing Cash balances	124	233	46	466

Source: Company, Angel Research

Exhibit 5: Key Ratios

Y/E March	FY2015	FY2016	FY2017
Valuation Ratio (x)			
P/E (on FDEPS)	17.7	14.0	16.0
P/CEPS	15.4	12.7	14.2
P/BV	4.7	4.2	3.5
Dividend yield (%)	0.0	0.0	0.0
EV/Sales	1.5	1.1	1.3
EV/EBITDA	15.2	9.0	10.7
EV / Total Assets	2.5	2.5	2.8
Per Share Data (₹)			
EPS (Basic)	24.2	30.7	26.8
EPS (fully diluted)	24.2	30.7	26.8
Cash EPS	27.8	33.6	30.1
Book Value	90.2	101.0	120.7
Returns (%)			
ROCE	12.6	24.8	22.9
Angel ROIC (Pre-tax)	(10.3)	(33.0)	107.3
ROE	26.8	30.4	22.2
Turnover ratios (x)			
Inventory / Sales (days)	190	184	170
Receivables (days)	43	13	27
Payables (days)	66	120	113
Working capital cycle (ex-cash) (days)	167	77	84

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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