

11 August 2024

India | Equity Research | Q1FY25 results review

Bharat Dynamics

Defence

Nagging supply chain issues bog down performance; long-term prospects intact

Bharat Dynamics' (BDL) Q1FY25 EBITDA was below estimates. Key points: 1) Q1FY25 performance took a hit owing to supply chain issues amid the ongoing Russia-Ukraine war and conflicts in Middle-East region. 2) Incurred EBITDA losses of INR 523mn due to unabsorbed fixed cost. 3) Net profits shrank to INR 72mn, bogged down by the EBITDA dip and other income receding. 4) Indian Air Force (IAF) has given clearance to DRDO and BDL to produce 200 Astra air-to-air missiles for its Su-30 and LCA Tejas fighter aircraft. Management has guided for revenue growth of 30–35% for FY25 and margins in the range of 15–20%. At CMP, we believe that risk-reward appears favourable. We upgrade BDL to **BUY** (earlier Add) at an unchanged TP of INR 1,745 (DCF-based methodology).

Supply chain disruptions impinge earnings

BDL's Q1FY25 revenue plunged 36.5% YoY while the company reported loss at EBITDA level. Key points: 1) Q1FY25 performance continued to be impacted by supply chain issues due to the ongoing Russia-Ukraine war and conflicts in Middle-East region. 2) Gross margin improved to 83.1%, led by inventory changes. 3) Loss of INR 523mn at the EBITDA-level on account of higher unabsorbed fixed cost. 4) Employee cost increased by 8.7% YoY. 5) Other income narrowed 25.2% YoY to INR 804mn. 6) Net profits nosedived 82.7% YoY to INR 72mn. We expect BDL's performance to improve by H2FY25 as management envisages most of these issues to get ironed out by the later part of Q2FY25. In its recent interaction with investors, management outlined its focus on improving share of exports to ~25% (now 10%), increasing R&D spend to 9% of revenue (now 4%), and ensuring better inventory management.

Solid prospects in store

IAF has recently given the nod to DRDO and BDL to produce 200 Astra air-to-air missiles for its Su-30 and LCA Tejas fighter aircraft ([Link](#)). Separately, the final testing of Astra MK-II shall be completed soon. Management (during an earlier interaction with investors) has guided for revenue growth of 30–35% for FY25, while margins may be in the 15–20% range with an order inflow expectation of INR 15–20bn p.a. followed by a big order every 3–4 years.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	24,894	23,693	31,600	41,600
EBITDA	4,082	5,366	5,778	7,834
EBITDA Margin (%)	16.4	22.6	18.3	18.8
Net Profit	3,522	6,127	6,231	8,213
EPS (INR)	9.6	16.7	17.0	22.4
EPS % Chg YoY	(34.0)	74.0	1.7	31.8
P/E (x)	149.3	85.8	84.4	64.0
EV/EBITDA (x)	119.3	90.1	80.5	57.9
RoCE (%)	8.1	10.5	10.5	13.1
RoE (%)	11.8	18.6	17.3	20.4

Amit Dixit

amit.dixit@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Prithish Urumkar

Prithish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	526bn
Market Cap (USD)	6,261mn
Bloomberg Code	BDL IN
Reuters Code	BARA BO
52-week Range (INR)	1,795 /450
Free Float (%)	25.0
ADTV-3M (mn) (USD)	69.1

Price Performance (%)	3m	6m	12m
Absolute	53.5	56.0	151.0
Relative to Sensex	43.4	44.7	130.2

Previous Reports

28-06-2024: [Company Update](#)

31-05-2024: [Q4FY24 results review](#)

Outlook: Earnings to pick up H2FY25 onwards

Management believes that the Russia-Ukraine war and conflicts in the Middle-Eastern region continued to affect supply chain, leading to delay in receipt of inputs, which has impacted BDL's Q1FY25 performance. Management expects most of these issues to be resolved by the later part of Q2FY25. Hence, we expect H2FY25 to be markedly better. In FY26E, we expect revenue growth to be primarily driven by the execution of 3rd and 4th regiment of Akash while margins are likely to be slightly lower, as execution of weapon systems entails a higher component of bought-out items. We expect (as guided by management earlier) yearly order inflow of INR 15–20bn, apart from the large orders of INR 150–200bn every 3–4 years. Its order book, as on end-FY24, stood at INR 195bn, implying book/bill of 8.2x ttm. We remain positive on management's previous guidance of doubling revenue over the next five years and reaching INR 100bn in the next ten years. In our view, the recent price erosion in BDL's stock is an opportunity to **BUY** as medium-term prospects remain solid with the Indian government making attempts to boost the rocket force. We upgrade BDL to **BUY** (earlier Add) at an unchanged TP of INR 1,745 (DCF-based methodology).

Key risks

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

Exhibit 1: BDL Q1FY25 performance review

(INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Sales	1,878	2,957	(36.5)	8,486	(77.9)	23,693	24,894	(4.8)
Other operating income	34	20		56				
Total Sales	1,912	2,977	(35.8)	8,541	(77.6)	23,693	24,894	(4.8)
Cost of materials	1,751	1,774	(1.3)	6,267	(72.1)	11,200	12,103	(7.5)
CWIP	(1,429)	(531)	NM	(3,420)	NM	(2,226)	(190)	1,069.5
Gross Margin	1,589	1,734	(8.4)	5,695	(72.1)	14,719	12,981	13.4
(%)	83	58		67	24.7	62	52	19.1
Employee Costs	1,471	1,353	8.7	1,537	(4.3)	6,000	5,325	12.7
(%)	77	45	69.2	18	327.5	25	21	18.4
Other Expenses	642	708	(9.4)	993	(35.4)	3,354	3,574	(6.2)
(%)	34	24	41.1	12	188.6	14	14	(1.4)
Total Expense	2,435	3,304	(26.3)	5,377	(54.7)	18,327	20,812	(11.9)
EBITDA	(523)	(327)	NM	3,164	(116.5)	5,366	4,082	31.4
Margin (%)	(27.4)	(11.0)		37.0		23	16	
Adjusted EBITDA	(523)	(327)	60.0	1,535				
Other Income	804	1,074	(25.2)	885	(9.2)	3,618	1,554	132.8
Interest	12	8		8		31	45	
Depreciation	157	169		163		670	773	
Exceptional Items	-	-		-				
PBT	112	571	(80.3)	3,879	(97.1)	8,282	4,818	71.9
Tax	40	153		991		2,155	1,296	
PAT	72	418	(82.7)	2,888	(97.5)	6,127	3,522	74.0

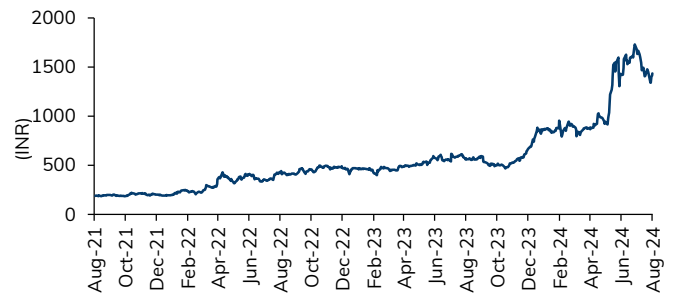
Source: I-Sec research, Company data

Exhibit 2: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	74.9	74.9	74.9
Institutional investors	16.5	15.4	12.6
MFs and others	9.3	7.9	5.7
FIs/Banks	0.0	0.0	0.2
Insurance	3.6	4.0	3.6
FIIIs	3.6	3.5	3.1
Others	8.6	9.7	12.5

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	24,894	23,693	31,600	41,600
Operating Expenses	20,812	18,327	25,822	33,766
EBITDA	4,082	5,366	5,778	7,834
EBITDA Margin (%)	16.4	22.6	18.3	18.8
Depreciation & Amortization	773	670	729	769
EBIT	3,309	4,695	5,048	7,065
Interest expenditure	45	31	45	45
Other Non-operating Income	1,554	3,618	3,326	3,960
Recurring PBT	4,818	8,282	8,330	10,980
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,296	2,155	2,099	2,767
PAT	3,522	6,127	6,231	8,213
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,522	6,127	6,231	8,213
Net Income (Adjusted)	3,522	6,127	6,231	8,213

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	76,001	92,390	1,00,845	1,17,424
of which cash & cash eqv.	38,589	42,285	60,477	71,998
Total Current Liabilities & Provisions	22,064	30,062	35,500	47,039
Net Current Assets	53,938	62,329	65,346	70,385
Investments	-	-	-	-
Net Fixed Assets	7,011	7,253	7,423	7,554
ROU Assets	-	-	-	-
Capital Work-in-Progress	743	729	729	729
Total Intangible Assets	1,074	984	984	984
Other assets	1,330	1,338	1,338	1,338
Deferred Tax Assets	564	707	707	707
Total Assets	64,661	73,339	76,527	81,697
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	32,546	36,971	36,971	36,971
Equity Share Capital	1,833	1,833	1,833	1,833
Reserves & Surplus	30,282	34,535	37,724	42,894
Total Net Worth	32,115	36,368	39,557	44,727
Minority Interest	-	-	-	-
Total Liabilities	64,661	73,339	76,527	81,698

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	6,158	6,016	8,541	1,912
% growth (YOY)	15.2	30.3	7.0	(35.8)
EBITDA	1,340	1,187	3,164	-523
Margin %	21.8	19.7	37.0	(27.4)
Other Income	783	876	885	804
Extraordinaries	-	-	-	-
Adjusted Net Profit	1471	1350	2888	72

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	21,601	4,117	22,180	15,508
Working Capital Changes	19,213	(275)	15,175	6,481
Capital Commitments	(1,083)	(809)	(900)	(900)
Free Cashflow	20,518	3,308	21,280	14,608
Other investing cashflow	(10,628)	(6,415)	-	-
Cashflow from Investing Activities	(11,710)	(7,224)	(900)	(900)
Issue of Share Capital	-	-	-	-
Interest Cost	(31)	(17)	(45)	(45)
Inc (Dec) in Borrowings	(13)	(15)	-	-
Dividend paid	(1,669)	(1,452)	(3,042)	(3,042)
Others	-	-	-	-
Cash flow from Financing Activities	(1,714)	(1,484)	(3,087)	(3,087)
Chg. in Cash & Bank balance	8,176	(4,591)	18,193	11,521
Closing cash & balance	10,827	5,938	60,477	71,998

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.6	16.7	17.0	22.4
Adjusted EPS (Diluted)	9.6	16.7	17.0	22.4
Cash EPS	11.7	18.5	19.0	24.5
Dividend per share (DPS)	8.3	8.3	8.3	8.3
Book Value per share (BV)	87.6	99.2	107.9	122.0
Dividend Payout (%)	86.4	49.7	48.8	37.0
Growth (%)				
Net Sales	(11.6)	(4.8)	33.4	31.6
EBITDA	(43.8)	31.4	7.7	35.6
EPS (INR)	(34.0)	74.0	1.7	31.8
Valuation Ratios (x)				
P/E	149.3	85.8	84.4	64.0
P/CEPS	122.4	77.3	75.5	58.5
P/BV	16.4	14.5	13.3	11.8
EV / EBITDA	119.3	90.1	80.5	57.9
P / Sales	21.1	22.2	16.6	12.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	52.1	62.1	51.5	48.5
EBITDA Margins (%)	16.4	22.6	18.3	18.8
Effective Tax Rate (%)	26.9	26.0	25.2	25.2
Net Profit Margins (%)	14.1	25.9	19.7	19.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(1.2)	(1.2)	(1.5)	(1.6)
Net Debt / EBITDA (x)	(9.5)	(7.9)	(10.5)	(9.2)
Profitability Ratios				
RoCE (%)	8.1	10.5	10.5	13.1
RoE (%)	11.8	18.6	17.3	20.4
RoIC (%)	45.3	(964.8)	(34.0)	(29.3)
Fixed Asset Turnover (x)	1.9	1.7	2.2	2.7
Inventory Turnover Days	276	283	148	171
Receivables Days	28	44	32	35
Payables Days	-	-	-	-

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Amit Dixit, PGDM, B.Tech; Mohit Lohia, CA; Pritish Urumkar, MBATech (Finance); authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
