

IPO UPDATE

Bharat Dynamics Limited

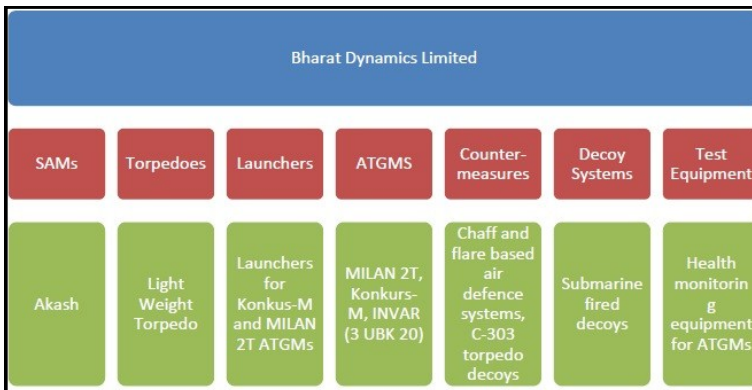
About the company:

Incorporated in 1970, Bharat Dynamics Limited (BDL) is a wholly-owned Government of India company. It was conferred the 'Mini-Ratna (Category -1)' status by the Department of Public Enterprises.

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. The company is not only the sole manufacturer in India for SAMs, torpedoes, ATGMs but also the sole supplier to the Indian armed forces.

Further, the company is also engaged in the business of refurbishment and life extension of missiles manufactured. In addition to the above, BDL is the co-development partner with Defence Research and Development organization (DRDO) for the next generation of ATGM's and SAM's.

Product Portfolio:



Source: Red Herring Prospectus

Product Pictorial :



Source: Company's Website

Customers:

The customers of the company include the Ministry of Defence, other defence PSUs, government bodies under the Ministry of Defence and other countries.

Current order Book:

The current order book as of October 31, 2017 is Rs1,116,40mn which is to be executed over a period of 2 to 3 years. Major products forming part of the current order book include the Akash Weapon System, LR SAM, MR SAM, INVAR (3 UBK 20) ATGM and the Konkurs-M ATGM.

The revenues in HIFY18 stood at Rs18,057mn and following the business cycle trend the second half generates more revenue as compared to the first half.

Please Turn Over

SNAPSHOT		
Issue Opens	Tuesday, March 13, 2018	
Issue Closes	Thursday, March 15, 2018	
Price Band	413/428	
Bid Lot	35 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Offer for Sale	
Offer Size (Rsmn)	Fresh Issue	-
	OFS	9,609
	Total	9,609
*Implied Market Cap (Rsmn)	78,444	
*PE (Based on FY17 earnings)	16	

*Note : Implied Market Cap & PE are calculated at higher price band of Rs428

Discount of Rs10/- per share for Retail Investors

Issue allocation	
Reservations	% of Net Issue
QIB	50%
NIP	15%
Retail	35%
Total	100%

Object of the offer	
• To carry out the disinvestment	
• To achieve the benefit of listing of shares on stock exchange	

Last 3 year Summarized Financials			
Rs(mn)	FY15	FY16	FY17
Sales	28,408	40,788	48,328
EBITDA	2,749	5,133	5,682
EBITDA %	9.7%	12.6%	11.8%
Profit After Tax	4,436	5,621	4,903
Profit Margin %	15.6%	13.8%	10.1%
Earning Per Share	31.8	40.3	43.1
RoNW(%)	26.8%	30.4%	22.2%

Details of Selling Shareholder & No of Shares	
The President of India	2,24,51,953
Total	2,24,51,953

Source: Red Herring Prospectus

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Manufacturing Facilities:

BDL currently has three manufacturing facilities located in Hyderabad, Bhanur and Vishakhapatnam. The Hyderabad manufacturing unit is engaged in the manufacture of SAMs, Milan 2T ATGMs, countermeasures, launchers and test equipments. The Bhanur unit is engaged in the manufacture of the Konkurs – M ATGMs, the INVAR (3 UBK 20) ATGMs, launchers and spares. The Vishakhapatnam unit is engaged in the manufacture of light-weight torpedoes, the C-303 anti-torpedo system, countermeasures and spares.

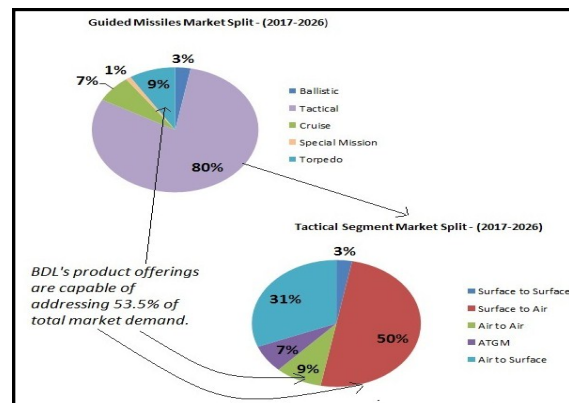
Strength of the company :

- Modern facilities and infrastructure to deliver quality products in a timely manner
- Increase in indigenization of the products and implementation of the “Make in India” policy
- Quality control of the products
- Strong order book and established financial track record of delivering growth
- Experienced board and senior management team
- Continue to invest in infrastructure
- Focus on R&D

Opportunities in Indian Defence Sector:

Frost & Sullivan has estimated the total Indian guided missile and torpedo market to be worth USD24.49bn. 79% of the market valuation remains unaddressed and USD19.41bn 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.

There is a high degree of convergence between BDLs product portfolio and opportunities arising in the Indian Defence Market. The company thereby stands to gain from this.



Source: Red Herring Prospectus

Risk & Concerns :

- Total dependence on Ministry of Defence for Orders.
- Any delay in the supply of goods may lead to the levy of liquidated damages. In the past 3 years, the company had paid liquidated damages to its customer for delay in delivery of goods on few instances.
- Decline in the PAT Margins

Financials :

Particulars Rs(mn)	FY14	FY15	FY16	FY17	FY18 Till September
Sales	17,835	28,408	40,788	48,328	18,057
Sales Growth	66%	59%	44%	18%	-
EBITDA	822	2,749	5,133	5,682	2,450
EBITDA %	4.6%	9.7%	12.6%	11.8%	13.6%
Profit After Tax	3,601	4,436	5,621	4,903	1,706
Profit Margin %	20.2%	15.6%	13.8%	10.1%	9.4%

Source: Red Herring Prospectus

Outlook and Recommendations:

The company has a monopoly in manufacturing and supplying missiles in India and with the growth in the government spending towards defence, focus on Make in India, the company stands to be benefit in the long run. With a strong order book and new manufacturing facilities coupled with focus on investing in the Infrastructure space, the company has developed a strong execution base of large orders in the future. The top-line grew at the CAGR of 45.6% for the last 4 years. However, there has been gradual decrease in the PAT margins. The company has no listed peers. In terms of the valuations, at the upper price band of Rs428 and EPS of Rs21.6 in FY17, the P/E stands at 19.8x. Thereby, the IPO seems to be fairly priced. The IPO would be an Subscribe for a long term horizon of 2-3 years. One may or may not get listing gains.

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