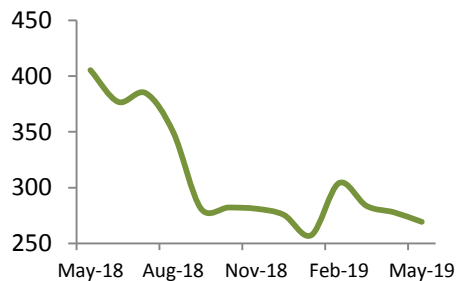


Recommendation	BUY
CMP	Rs. 264
Target Price	Rs. 343
Sector	PSU - Defense

**Stock Details**

BSE Code	541143
NSE Code	BDL
Bloomberg Code	BDL IN
Market Cap (Rs. Cr)	4,866
Free Float (%)	12%
52 week High/Low (Rs.)	425/225
Avg. volume (BSE+NSE)	1,33,066
Face Value (Rs.)	10
Dividend (FY18)	120%
Shares o/s (Crs)	18.33

Relative Performance	1M	3M	1Yr
<b>BDL</b>	-12%	17%	-30%
<b>Rel. to Sensex</b>	-7%	14%	-34%

**Shareholding Pattern** 30<sup>th</sup> Mar 2019

Promoters Holding	87.8%
Institutional (Incl. FII)	7.5%
Public & others	4.7%

Jehan Bhadha (+91 22 6273 8174)  
 Research Analyst  
 Jehankersi.bhadha@nirmalbang.com

**The PSU Outlier - Heads You Win; Tails You Don't Lose Much**

With an eye on outcome of the upcoming LS elections on 23<sup>rd</sup> May 2019, we believe PSU stocks in industries like defense and railways would stand to be big winners if the incumbent government returns to power. In a scenario where the incumbent government loses, these businesses would underperform, however current trough valuations would restrict any major decline in the stocks of these companies.

Upon analyzing the deeply undervalued PSU stocks from defense & railway industries, we identify Bharat Dynamics as a clear outlier. With the company beating all other PSUs on most parameters, we believe the stock presents a good entry opportunity with a favorable risk-reward ratio considering the company's cheap valuations at 7.8x FY19E P/E and 4.7x FY19E EV/EBITDA on one hand and superior proven track record of growth, ROE, free cash flow generation on the other. We value the company at 10.3x FY19E EPS in line with the PSU defense and railway basket & arrive at a TP of Rs. 343 for the stock.

**Key Business Strengths**

















































**Presence in most missile and torpedo systems; Sole manufacturer from India for SAMs and ATGMs:** BDL is the sole manufacturer in India for SAMs (Surface to Air Missiles) and ATGMs (Anti-Tank Guided Missiles). It has presence in most of the missiles and torpedo systems. It is also engaged in the business of refurbishment and life extension of missiles manufactured. Further, BDL is the co-development partner with the DRDO for next generation of ATGMs and SAMs. BDL has also entered into technology transfer agreements with established global players such as Thales.

**Domestic defense industry presents a huge opportunity for BDL:** The Stockholm International Peace Research Institute (SIPRI) Arms Transfer Database indicates that India has remained the largest importer of defense equipment in the 2012-16 timeframe with its share in global arms imports increasing from 9.7 % in 2007-11 to 12.8 % in 2012-16. Recognizing this, the government is now adopting a multi-pronged approach towards indigenization consisting of a slew of measures including the new DPP 2016. The Indian Guided Missile and Torpedo market landscape consists of two main types of suppliers at present - DPSUs with indigenous R&D & manufacturing capabilities and foreign players which export their missile systems to India. Frost & Sullivan forecasts a cumulative market size of USD 24.49 Bn in the 2017-26 time frame for guided missiles and torpedoes. The market size of SAM (Surface to Air Missiles) for the same period stands at a huge USD 9.79 Bn while that for ATGMs (Anti-Tank Guided Missiles) stands at USD 1.71 Bn.





**Strong order book and established financial track record of delivering growth:** As on Q3FY19, BDL had a strong order book of Rs. 14,836 Cr ensuring sales visibility (Order book-to-Sales of 3.7x). BDL has delivered consistent growth over the last five financial years both in terms of financial and operational metrics. Its revenue from operations and EBITDA has increased from Rs. 2841 Cr and Rs. 275 Cr respectively, in FY15 to Rs. 4577 Cr and Rs. 887 Cr, respectively in the TTM period; being mainly driven by orders of Akash missiles. BDL's clientele includes Ministry of Defense, other defense PSUs and Government bodies under the MoD, India and other countries.

## Stacking up the PSU basket

In order to gauge superior companies within the PSU basket, we analyze them on various financial parameters viz. – past execution capabilities, quality of earnings (return ratios), cash flows, order books and valuations. Most of the companies are available at cheap valuations with an average TTM PE of 10.3x and EV/EBITDA of 5.8x. **We observe that only Bharat Dynamics (BDL) stands out as an outlier having demonstrated superior performance on all parameters. Apart from BDL, we also observe that BEL has performed consistently and is a large listed company with a decent track record.**

Particulars (Rs. Cr)	BEL	HAL	BDL	Cochin Shipyard	Garden Reach	RVNL	RITES	IRCON
<b>Past Execution</b>								
Revenue (TTM)	10485	18624	4577	2355	1344	7597	1663	4027
Revenue CAGR FY15-18	14%	5%	18%	8%	-16%	30%	18%	10%
EBITDA CAGR FY15-18	15%	-5%	30%	19%	+ to -	6%	8%	-14%
Score								
<b>Quality of Earnings</b>								
PBIT Margin	22%	19%	23%	27%	10%	8%	33%	15%
Asset Turnover	1.4	1.5	1.9	0.8	1.3	1.2	0.8	0.6
ROCE TTM	30%	28%	44%	22%	13%	10%	26%	9%
ROE TTM	22%	18%	30%	14%	9%	12%	17%	11%
Score								
<b>Cash Flow Conversion</b>								
W.Cap Days	277	477	61	64	33	42	83	21
CFO/EBITDA (FY14-18)	68%	15%	111%	18%	- to +	-215%	156%	47%
FCFE/PAT (FY14-18)	21%	-35%	35%	-12%	42%	-202%	121%	15%
Score								
<b>Order Book/Sales</b>								
Score								
<b>Valuations</b>								
EV/EBITDA TTM	7.5	5.3	5.0	3.9	6.6	15.1	2.8	4.7
PE TTM	11.7	10.2	8.2	10.4	15.3	8.6	12.5	9.3
Dividend Yield	3%	5%	6%	4%	5%	4%	3%	10%
Score								
<b>Overall Score</b>								

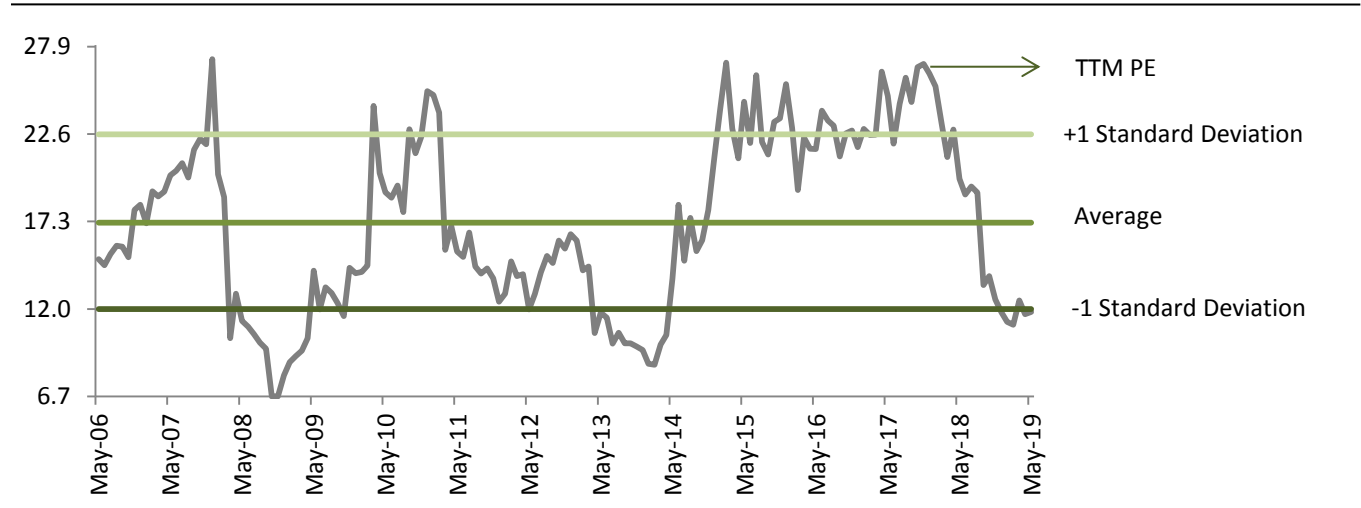
Source: Company Data, Nirmal Bang Research. All data is TTM

 : Strong,  : Above average,  : Average,  : Weak

### Annexure: Valuations of Bharat Electronics Ltd as a reference point

As most companies have listed recently, historical valuation ranges are not available for them. However, if we trace BEL's valuations over the past 13 years, we observe that the company is available at trough valuations with TTM PE of 11.7x i.e. at -1 Standard Deviation. The previous instances when BEL was available at -1 Standard Deviation and below, were between May 2008 to May 2009 and between April 2013 to April 2014.

**BEL TTM PE**



Source: Company, NBRR

## Bharat Dynamics Ltd.

## Stock Idea

## Financials

P&L (Rs. Cr)	FY15	FY16	FY17	FY18	FY19E	Balance Sheet (Rs. Cr)	FY15	FY16	FY17	FY18	FY19E
Revenues	2841	4079	4833	4588	4214	Share Capital	115.0	97.8	122.2	183.3	183.3
<b>% Growth</b>		<b>44%</b>	<b>18%</b>	<b>-5%</b>	<b>-8%</b>	Reserve & Surplus	1,538	1,753	2,090	1,773	2,103
COGS	2000	2818	3222	2854	2471	<b>Networth</b>	<b>1,653</b>	<b>1,851</b>	<b>2,212</b>	<b>1,956</b>	<b>2,286</b>
<b>% of Revenues</b>	<b>70.4%</b>	<b>69.1%</b>	<b>66.7%</b>	<b>62.2%</b>	<b>58.6%</b>	<b>Total Loans</b>	-	-	-	-	-
Employee Cost	312	326	448	530	588	Long term provisions	2	1	18	-	-
<b>% of Revenues</b>	<b>11.0%</b>	<b>8.0%</b>	<b>9.3%</b>	<b>11.6%</b>	<b>14.0%</b>	Other long term Liab	83	184	171	410	610
Other expenses	253	421	393	536	268	Trade payable	514	1,343	1,495	1,012	1,011
<b>% of Revenues</b>	<b>8.9%</b>	<b>10.3%</b>	<b>8.1%</b>	<b>11.7%</b>	<b>6.4%</b>	Customer Advances	5,714	5,507	3,550	1,936	1,839
<b>Adjusted EBITDA</b>	<b>275</b>	<b>513</b>	<b>769</b>	<b>667</b>	<b>887</b>	Other Current Liab	243	381	530	618	630
<b>EBITDA Margin</b>	<b>9.7%</b>	<b>12.6%</b>	<b>15.9%</b>	<b>14.5%</b>	<b>21.0%</b>	Short term provisions	202	373	625	666	700
<b>% Growth</b>		<b>87%</b>	<b>50%</b>	<b>-13%</b>	<b>33%</b>	<b>Total Current Liab.</b>	<b>6,674</b>	<b>7,604</b>	<b>6,200</b>	<b>4,232</b>	<b>4,180</b>
Depreciation	67	53	62	63	74	<b>Total Equity &amp; Liab.</b>	<b>8,412</b>	<b>9,641</b>	<b>8,601</b>	<b>6,598</b>	<b>7,077</b>
Other Income	439	385	230	173	114	Fixed Assets & CWIP	660	823	897	998	1,136
Interest	3	4	4	3	4	Deferred Tax Asset	40	77	151	192	227
<b>PBT</b>	<b>644</b>	<b>841</b>	<b>933</b>	<b>773</b>	<b>923</b>	Investments & L&A	29	9	13	87	102
Tax	200	279	242	246	313	Other non Curr. assets	87	89	83	3	5
<b>Tax rate</b>	<b>31%</b>	<b>33%</b>	<b>26%</b>	<b>32%</b>	<b>34%</b>	Bank	3,545	3,010	1,692	327	520
<b>PAT</b>	<b>444</b>	<b>562</b>	<b>691</b>	<b>528</b>	<b>610</b>	Cash	124	233	93	30	77
<b>Adj. PAT Margin</b>	<b>15.6%</b>	<b>13.8%</b>	<b>14.3%</b>	<b>11.5%</b>	<b>14.5%</b>	Inventories	1,476	2,058	2,251	1,926	1,804
<b>% Growth</b>		<b>27%</b>	<b>23%</b>	<b>-24%</b>	<b>16%</b>	Debtors	335	145	356	529	520
<b>EPS (Post Issue)</b>	<b>24.2</b>	<b>30.7</b>	<b>37.7</b>	<b>28.8</b>	<b>33.3</b>	Short term Advances	741	1,488	1,729	2,193	2,303
<b>Performance Ratio</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	Other Current assets	1,375	1,710	1,335	313	382
EBITDA Margin (%)	9.7%	12.6%	15.9%	14.5%	21.0%	<b>Total Assets</b>	<b>8,412</b>	<b>9,641</b>	<b>8,601</b>	<b>6,598</b>	<b>7,077</b>
PAT Margin (%)	15.6%	13.8%	14.3%	11.5%	14.5%	<b>Cash Flow (Rs. Cr)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>
ROE (%)	27%	30%	31%	27%	27%	EBITDA	275	513	769	667	887
ROCE (%)	39%	46%	42%	40%	41%	Prov for exp & others	92	110	(30)	137	153
Net D/E (x)	-0.1	-0.1	0.0	0.0	0.0	<b>Op. profit before WC</b>	<b>367</b>	<b>623</b>	<b>739</b>	<b>804</b>	<b>1,040</b>
Sales Growth (%)		44%	18%	-5%	-8%	Change in WC	(747)	(61)	(555)	426	(479)
EBITDA Growth (%)		87%	50%	-13%	33%	Less: Tax	(220)	(278)	(350)	(254)	(313)
PAT Growth (%)		27%	23%	-24%	16%	<b>CF from operations</b>	<b>(599)</b>	<b>284</b>	<b>(166)</b>	<b>977</b>	<b>248</b>
<b>Turnover Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	Addition to assets	(291)	(216)	(46)	(169)	(138)
Debtors Days	43	13	27	42	45	Int recd / Invst in MF	353	365	139	(102)	(68)
Inventory Days	190	184	170	153	156	<b>CF from Investing</b>	<b>62</b>	<b>149</b>	<b>93</b>	<b>(271)</b>	<b>42</b>
Creditor Days	94	174	169	129	149	Change in share capita	-	(199)	-	-	-
Asset Turnover (x)	1.7	2.2	2.2	2.3	1.8	Tax on Sh Buyback	-	-	(42)	(97)	-
<b>Valuation Ratio</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	Dividend / Buyback	(59)	(123)	(22)	(670)	(280)
Price/Earnings (x)					7.8	Interest paid	(2)	(2)	(2)	(2)	(4)
EV/EBITDA (x)					4.7	<b>CF from Financing</b>	<b>(61)</b>	<b>(324)</b>	<b>(66)</b>	<b>(769)</b>	<b>(243)</b>
Price/BV (x)					2.1	<b>Net Change in cash</b>	<b>(598)</b>	<b>109</b>	<b>(139)</b>	<b>(63)</b>	<b>47</b>
Mkt cap/Sales (x)					1.9	Cash at beginning	722	124	233	93	30
EV/Sales (x)					1.7	Cash at end	124	233	93	30	77

Source: Company Data, Nirmal Bang Research

**Disclosure:**

This Report is published by Nirmal Bang Securities Private Limited (hereinafter referred to as "NBSPL") for private circulation. NBSPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001766. NBSPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments. It is also a registered Portfolio Manager having registration no as INP000002981.

NBSPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBSPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBSPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBSPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBSPL or its associates or Analyst or his relatives hold / do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBSPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBSPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBSPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Jehan bhadha, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.



**Disclaimer:**

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBSPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBSPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBSPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBSPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBSPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBSPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBSPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBSPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBSPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBSPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBSPL.

Our reports are also available on our website [www.nirmalbang.com](http://www.nirmalbang.com).

**Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)**

B-2, 301/302, Marathon Innova,  
 Opp. Peninsula Corporate Park,  
 Off Ganpatrao Kadam Marg,  
 Lower Parel (W), Mumbai-400013  
 Board No. : 91 22 3926 8000/8001  
 Fax. : 022 3926 8010