Pee Aar Securities Ltd

भारत डायनामिक्स लिमिटेड
BHARAT DYNAMICS LIMITED

INVESTMENT THESIS

STUDY OF FINANCIAL REPORTS OF FY24-25

DATE 1/8/2025

By Parth Khanwalkar

COMPANY OVERVIEW

Bharat Dynamics Limited (BDL) was established in Hyderabad in 1970 as a Public Sector Undertaking under the Ministry of Defence to build a domestic guided missile manufacturing base. Starting with a licensed French anti-tank missile, the company has since become a major producer of a wide range of defense equipment. As a "Mini-Ratna" company and a close partner to the DRDO, it was the prime production agency for the Integrated Guided Missile Development Programme (IGMDP) and is the sole manufacturer of many missile systems used by the Indian Armed Forces.

BUSINESS SEGMENTS

Bharat Dynamics Limited (BDL) is a specialized defense manufacturer with a diverse product portfolio including Surface to Air Missiles (SAM), Air to Air Missiles (AAM), Anti-Tank Guided Missiles (ATGMs), and Torpedoes. Its offerings feature systems like the Akash Weapon System, Astra Weapon System, and anti-tank missiles such as Milan2T, Konkurs-M, and INVAR. BDL also produces support equipment like launchers for Konkurs-M & MILAN 2T ATGMs. Beyond initial sales, the company provides comprehensive Product Life Cycle Support, including crucial refurbishment and life extension services for vintage missiles, demonstrating a recurring revenue model and a significant competitive advantage due to its deep, specialized manufacturing capabilities.

Products

- Smart Anti-Airfield Weapon (SAAW)
- C – 303 Anti-Torpedo Decoy Launching System
- Helina (DHRUVASTRA)
- C 303S Anti-Torpedo Decoy Launching System
- Amogha – III ATGM
- Man Portable ATGM
- NAG ATGM
- INVAR (3 UBK 20) ATGM
- Konkurs-M ATGM
- Milan - 2T ATGM

Market Cap	Profit Growth	Div. Yield	52 Week High	52 Week Low
₹ 58,347.59 Cr	73.98 %	0.29 %	₹ 2,096	₹ 897.15

COMPANY OVERVIEW

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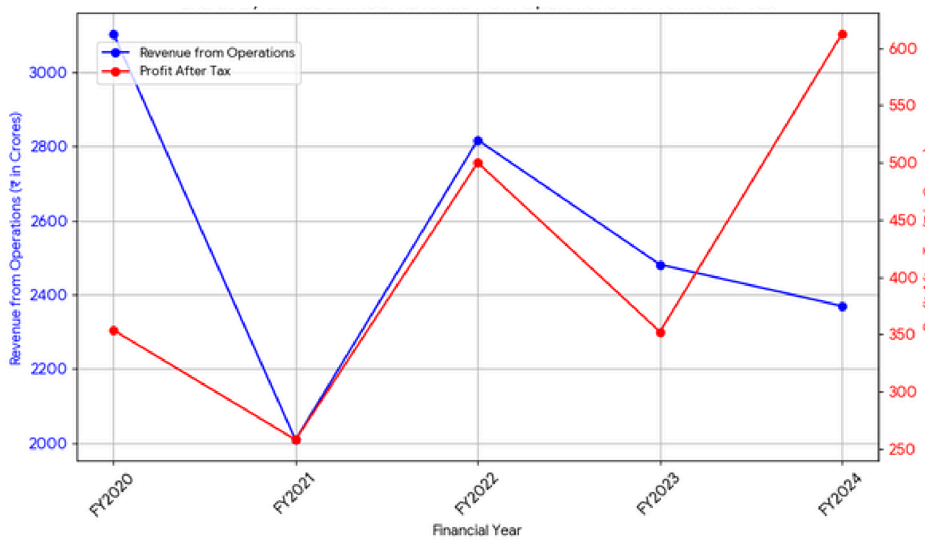
Particulars (in Crores)	FY2024	FY2023	FY2022	FY2021	FY2020
Revenue from Operations	2,369.30	2,481.50	2,817.50	2,008.40	3,104.90
Other Income	134.40	143.70	118.60	179.90	100.90
Total Revenue	2,503.70	2,625.20	2,936.10	2,188.30	3,205.80
Total Expenses	1,778.60	2,230.10	2,357.70	1,847.00	2,852.10
EBITDA	725.10	395.10	578.40	341.30	353.70
EBITDA Margin (%)	0.29	0.15	0.20	0.16	0.11
Profit Before Tax (PBT)	819.30	473.10	649.00	389.00	447.80
Profit After Tax (PAT)	612.70	352.20	499.90	257.80	353.70
PAT Margin (%)	0.24	0.13	0.17	0.12	0.11
EPS	33.43	19.22	27.28	14.06	19.32

Revenue Volatility: The company's operational revenue has shown inconsistency over the past five fiscal years, experiencing a notable decline from FY20 to FY21, followed by a period of recovery, and then another dip in FY24. This fluctuating revenue pattern ischaracteristic of defense sector entities, where income is intrinsically linked to the successful completion and delivery of extensive, multi-year projects.

Robust Profitability in FY24: Despite a marginal decrease in revenue, the company demonstrated strong financial performance in FY24, with its Profit After Tax (PAT) surging by 74% to reach ₹613 crore. Concurrently, both the EBITDA margin and Net Profit Margin significantly expanded to 22.64% and 26%, respectively. This notable improvement in profitability suggests effective cost management and potentially the successful execution of higher-margin projects during the fiscal year.

Earnings per Share (EPS) Performance: The company's Earnings per Share (EPS) for FY24 increased to ₹16.72. This growth directly reflects the substantial rise in net profit, indicating a positive outcome for shareholders



Disruptions in the supply chain, particularly those stemming from **geopolitical events in Europe and the Middle East, were a primary reason for the decline in revenue for FY2024**. This volatility is typical for defense contractors, as their income is tied to the completion and delivery of specific, long-term projects.

Despite these revenue challenges, the company's profitability improved significantly. This can be attributed to enhanced profit margins, which expanded notably for both EBITDA and PAT. The company's PAT margin, for instance, increased from 13.41% to 24.47%.

This improvement indicates that the company successfully implemented better cost-control measures and executed a mix of more profitable projects. These strategic efforts in operational efficiency allowed a greater portion of the revenue to be converted into profit, leading to the substantial increase in PAT.

Sales Growth	Promoter Holding	P/E	ROCE	Sales growth 5Years
-4.83%	74.93 %	106.15	24.39%	1.50 %

COMPANY OVERVIEW

Balance Sheet	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Equity Share Capital	₹ 183.3	₹ 183.3	₹ 183.3	₹ 183.3	₹ 183.3
Reserves	₹ 2,423.6	₹ 2,501.5	₹ 2,847.3	₹ 3,028.2	₹ 3,453.5
Borrowings	₹ 14.5	₹ 11.3	₹ 10.1	₹ 9.3	₹ 8.1
Other Liabilities	₹ 3,128.5	₹ 3,333.7	₹ 3,594.9	₹ 5,534.8	₹ 6,781.2
Total Liabilities	**₹ 5,749.8**	**₹ 6,029.7**	**₹ 6,635.6**	**₹ 8,755.6**	**₹ 10,426.1**
Fixed Assets Net Block	₹ 932.4	₹ 915.0	₹ 873.9	₹ 808.5	₹ 823.6
Capital Work in Progress	₹ 42.1	₹ 21.5	₹ 40.7	₹ 74.4	₹ 72.9
Investments	₹ 3.9	₹ 4.5	-	-	-
Other Assets	₹ 2,848.6	₹ 1,740.1	₹ 1,791.2	₹ 1,923.7	₹ 2,922.2
Total Non Current Assets	**₹ 3,826.9**	**₹ 2,681.1**	**₹ 2,705.7**	**₹ 2,806.6**	**₹ 3,818.7**
Receivables	₹ 338.4	₹ 322.7	₹ 304.2	₹ 184.6	₹ 310.5
Inventory	₹ 921.1	₹ 1,465.0	₹ 1,726.2	₹ 1,905.6	₹ 2,068.5
Cash & Bank	₹ 663.5	₹ 1,561.0	₹ 1,899.5	₹ 3,858.9	₹ 4,228.5
Total Current Assets	**₹ 1,922.9**	**₹ 3,348.6**	**₹ 3,929.8**	**₹ 5,949.0**	**₹ 6,607.4**

- Debt-Free Status: A major strength of BDL is its debt-free balance sheet. The company has zero borrowings, which minimizes financial risk and interest expenses.
- Growing Net Worth: The net worth has shown consistent growth over the years, from ₹2,606.8 crore in FY20 to ₹3,636.8 crore in FY24, indicating that the company is reinvesting its profits and building value for shareholders.
- Order Book: As of March 31, 2024, the company's order book stood at ₹19,434 crore. This is a crucial metric for a defense company as it provides strong revenue visibility for the next 4-5 years, securing future income. The export order book of ₹2,420 crore also highlights BDL's growing international presence.

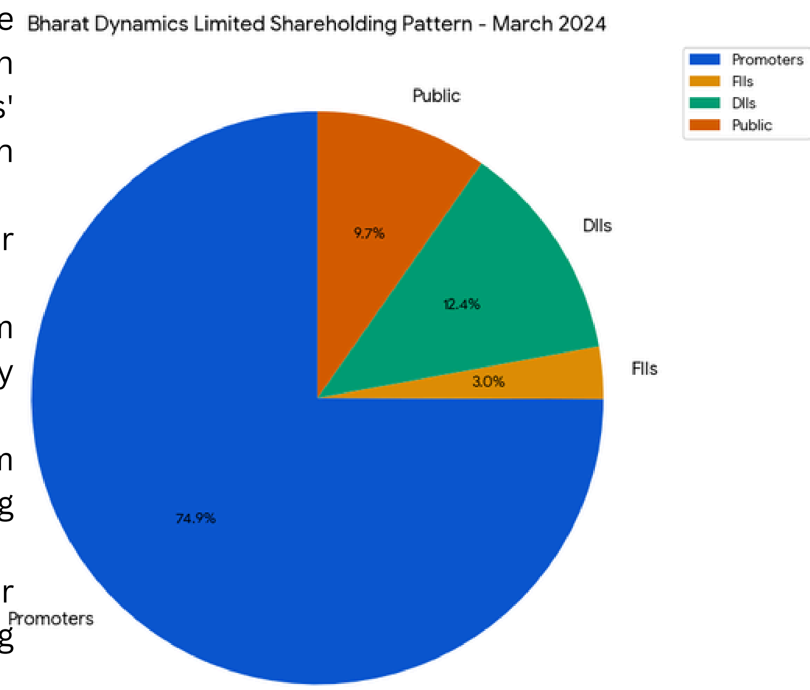
The significant shift in the shareholding pattern of Bharat Dynamics Limited stems from the Government of India's Offer For Sale (OFS) in September 2020. This reduced the promoters' stake from 87.75% in March 2020 to 74.93% in March 2021, where it has since remained.

The divested shares were absorbed by other investor groups:

DIIs saw a sharp increase in their holding, from 7.47% to 17.52% in 2021, before gradually declining to 12.39% by 2024.

Public shareholding has consistently grown from 4.74% in 2020 to 9.72% in 2024, indicating rising retail interest.

FIIs also showed a steady increase, from a minor 0.04% in 2020 to 2.95% by 2024, reflecting growing foreign confidence in the company.

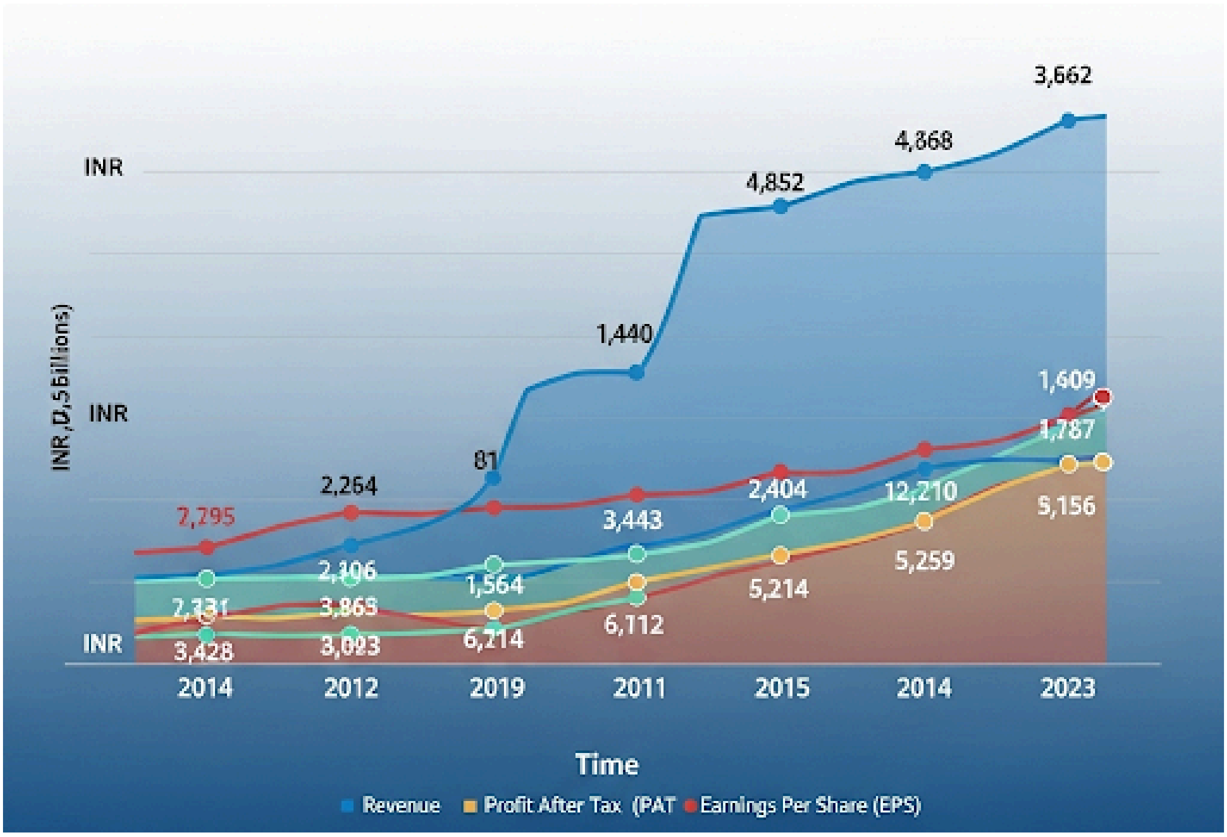


COMPANY OVERVIEW

10 YEAR PERFORMANCE REVIEW

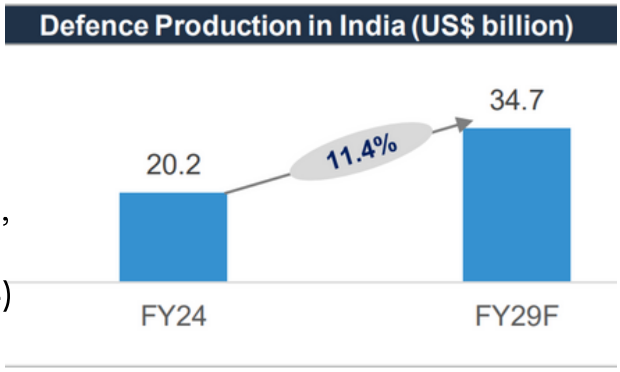
Growth andProfitability:

- Net Sales (Revenue from Operations): Grew from approximately ₹4,196 crore in FY15 to ₹2,367 crore in FY24, which reflects a CAGR of approximately 7.2% and some fluctuations in between.
- Profit After Tax (PAT): Increased from ₹635 crore in FY15 to ₹613 crore in FY24, showing a slight decrease. The company had its highest PAT in FY22 at ₹1,123 crore.
- Operating Profit: The company's operating profit has fluctuated over the decade, reaching its highest point in FY22, indicating varied operational performance over the period.
- Earnings Per Share (EPS): The EPS has also shown fluctuation, reflecting the changes in profitability, peaking in FY22.
- Dividend Per Share: BDL's dividend per share has seen an increase over the years, with the company paying ₹8.15 per share in FY24, which reflects its cash-generation capability.



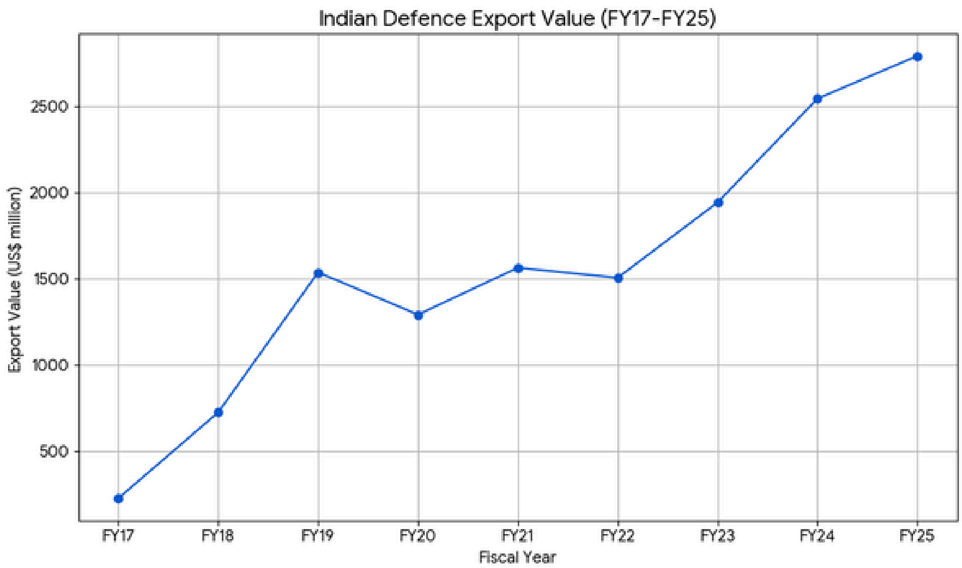
INDUSTRY AND SECTOR OVERVIEW

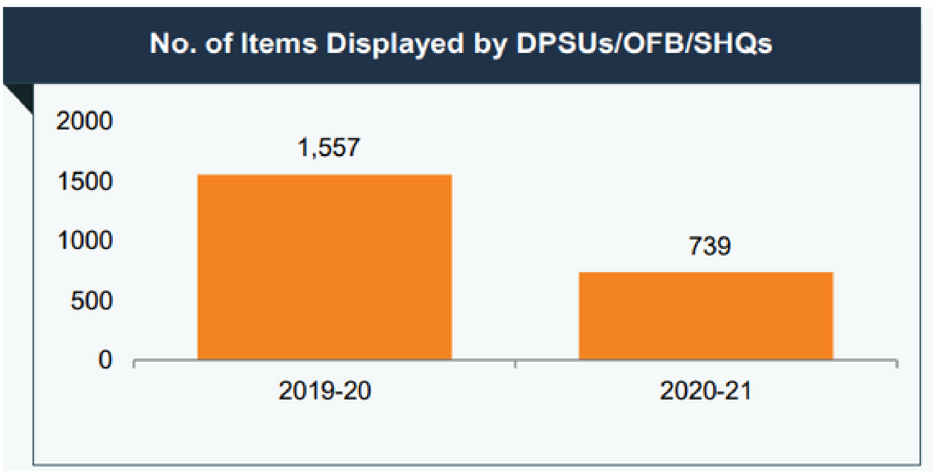
- The government has set an ambitious target to achieve defence manufacturing worth approximately US$ 34.7 billion (Rs. 3,00,000 crore) by FY29. This represents a substantial increase from current production levels, indicating a strong commitment to expanding the domestic industrial base. Concurrently, defence exports have experienced a remarkable surge, escalating from US$ 81.1 million (Rs. 686 crore) in FY14 to US$ 2.8 billion (Rs. 23,622 crore) in FY25. This upward trajectory is projected to continue, with an export target of approximately US$ 5.8 billion by 2029.



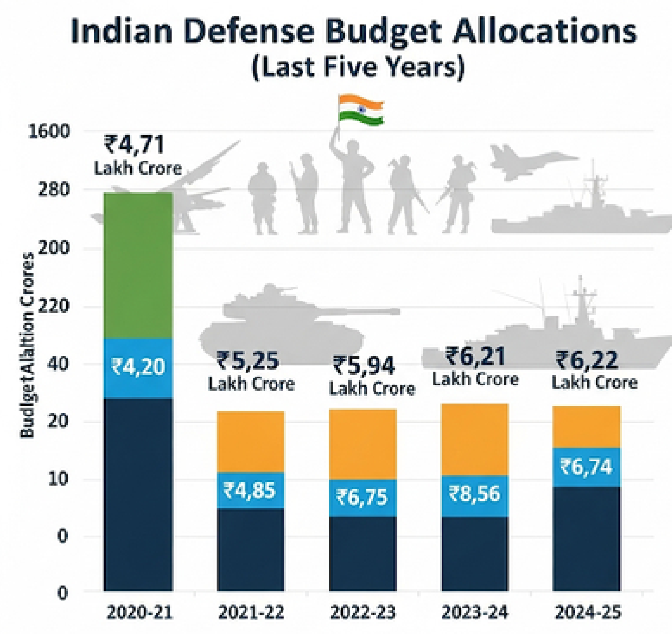
- Financial allocations underscore this strategic focus. The Union Budget for FY26 earmarked a substantial outlay of US$ 78.7 billion (Rs. 6,81,000 crore) for the Ministry of Defence, signifying a 9.5% year-over-year enhancement from the FY25 budget. A significant portion of this, US$ 20.8 billion (Rs. 1.80 lakh crore), is specifically allocated towards capital expenditure, including the procurement of new weapons, aircraft, and warships. Furthermore, the government plans to invest US$ 130 billion over the next 5-7 years for fleet modernization across all armed services.

- The Indian government has set an ambitious defence export target of approximately US$ 5.8 billion by 2029, signaling a continued focus on expanding its global market presence.
- Defence exports have grown significantly, from US 227 millioninFY17 to US 2,794 million in FY25.
- Future expansion plans include a focus on advanced technologies like AI and unmanned systems, as well as the creation of Defence Industrial Corridors.





INDUSTRY AND SECTOR OVERVIEW



- In the Union Budget FY26: • In FY26, the Ministry of Defence (MoD) was allocated a total Budget of Rs. 6.81 lakh crore (US$ 78.7 billion), which is 9.5% YoY increase from FY25 budget. • Of this, Rs. 1.80 lakh crore (US$ 20.8 billion) was allocated towards capital expenditure, including the purchase of new weapons, aircraft, warships, and other military equipment • An outlay of Rs. 7,146 crore (US$ 825.7 million) was announced towards the capital expenditures of the Border Roads Organization (BRO).
- "**Import Embargo**" on Military Items In February 2024, Defence minister Mr. Rajnath Singh stated it is decided that 75% of the capital acquisition budget will be used for procurement from local companies. Defence ministry plans to put 4666 defence items (replacement units, sub-systems, spares, and components) under import embargo between December 2023 and December 2029 to make India a self-reliant power and strengthen the indigenous capacity of the country. • India has published five Positive Indigenization Lists focused on import substitution of 509 defence it

Key Risks

- BDL is at risk from changes in government defense policies and procurement rules.
- Operational risks include time and cost overruns, particularly due to delays in receiving components from foreign suppliers.
- Supply chain disruptions, often linked to global geopolitical events, can impact revenue.
- The company faces challenges with high working capital requirements due to delayed clearances and high inventory.
- Competition, a shortage of skilled labor, and strict safety/environmental regulations are other key business risks.

SWOT ANALYSIS

- Decades of manufacturing expertise & advanced facilities.
- Experienced workforce and robust supply chain.
- Stable primary customer (MoD) with increasing budgets.
- Strong R&D collaboration with DRDO.

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- High dependency on a single customer (Ministry of Defence).
- Vulnerability to geopolitical supply chain disruptions.
- Dependency on some key foreign OEMs for components.

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- 'Make in India' policy creating a protected domestic market.
- Growing export market for defence equipment.
- Diversification into space, drones, and AI.
- Positive Indigenization Lists ensuring future orders.

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- Potential for defence budget cuts or reprioritization.
- Increasing competition from private sector players.
- Risk of order cancellation or delays.
- Inherent technology risk with new product introductions.

FUNDAMENTAL ANALYSIS

KEYPERFORMANCE INDICATORS (STANDALONE)

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EPS	33.43	19.22	27.28	14.06	19.32

- Revenue has been volatile: major drop in FY21, recovery in subsequent years, but FY24 is still below FY20 levels.
- EBITDA and Net Profit trends mirror revenue, declining sharply in FY21, partial recoveries thereafter.
- Profitability margins dipped in FY21 and FY23, improved in FY22 and FY24.
- The revenue drop is mainly because the companies main source of revenue is tied to the completion of the projects assigned to them
- The PAT has showed a significant rise and the main reason was that the company has done significant cost control by the manufacturing of multiple parts which were earlier imported.
- The FY21 decline was mainly due to the widespread of the of covid 19 which affected the supply chain majorly.
- In FY22 the company revenue has again increased as the backlogs were cleared
- Companies order book stands at ₹19,434 Cr as of march 24 and is estimated to ₹20,000 by the end of FY25
- FY22 and FY24 saw recovery in margins, but net profit in FY24 (₹251 Cr) is still below FY20 (₹447 Cr).

FUNDAMENTAL ANALYSIS

KEYPERFORMANCE INDICATORS (STANDALONE)

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Total Current Assets	**₹ 1,922.9**	**₹ 3,348.6**	**₹ 3,929.8**	**₹ 5,949.0**	**₹ 6,607.4**

- Equity and Reserves have steadily grown, no dilution.
- Debt is negligible and declining (from ₹14.5 Cr in FY20 to ₹8.1 Cr in FY24).
- Cash balance rose sharply (₹663 Cr → ₹4,228 Cr in five years); the company is cash-rich.
- Inventory and receivables are building up, especially inventory (almost doubled from FY20)
- Over the past five years the trade receivables show a significant rise from 101 days to 478 days, this shows that the company is facing challenges in collecting payments
- The inventory days has increased from 183to 305 days
- Return ratios (RoE/RoCE) dipped sharply in FY21, partial recovery in subsequent years but still not near FY20 highs.
- Debt-Equity remains negligible, highly conservative.
- Liquidity improved (current ratio up, cash balances up).
- Inventory and receivable days have trended up, indicating slower collections and higher stock holding.
- Asset turnover slightly declined, indicating underutilization or lower operating leverage.
- The short term liquidity is very strong

Net sales grew by	Profit Before Tax & exceptional items grew by	EBITDA (excluding non-operating income) grew by	Profit After Tax (PAT) grew by
1.7%	23.5%	8.2%	18.9%

VALUATION

- Enterprise Value (EV) = Market Cap + Debt – Cash
- EV = 58,289.02 + 8.08 – 4,228.48 = ₹54,068.62 Cr

P/E Ratio=Earnings per share/ Market value per share 232.3x

Metric	Value
Share Price (₹)	1,590.15
Market Cap (₹ Cr)	58,289.00
Debt (₹ Cr)	8.08
Cash & Bank (₹ Cr)	4,228.50
EBITDA (₹ Cr)	537
Net Profit (₹ Cr)	250.9
Number of Shares (Cr)	36.66

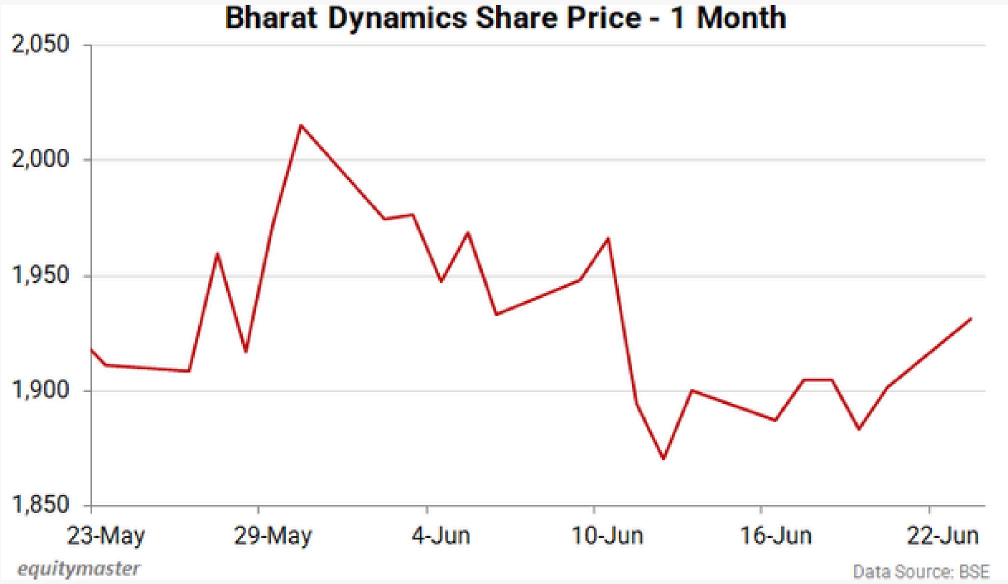
Metric	Bharat Dynamics	Peers (Median)	Comment
EV/EBITDA	100.7×	10–20×	Much higher—market expects rapid profit
P/E Ratio	232×	20–35×	Much higher—low earnings or hyped price
Debt/Equity	~0	~0	Entire industry is debt free

- EV/EBITDA: How many times EBITDA an acquirer would pay for the company’s core operations. Normal for Indian defense PSUs is 8–20×. BDL’s 100.7× is extremely high, suggesting the stock price is factoring in massive future profit growth, or that current EBITDA is unusually subdued.
- P/E Ratio: Measures how many years’ worth of current earnings one pays for one share of stock. Peers are in the 18–35× range; BDL’s 232× is vastly above normal, indicating the current profit level is low relative to price, or that earnings are expected to boom in the near future (high market optimism).
  - BDL is trading at a lofty premium to its Indian defense peers by all core valuation multiples.
  - This premium is only justified if future profits grow dramatically due to execution or new orders—otherwise, the stock may be overvalued relative to sector norms.
  - The sector, including BDL and its peers, is virtually debt-free because of advance payments, government ownership, and consistently positive operating cash flows.
  - For investors, these features mean low bankruptcy risk but also potentially limited upside if the growth priced in doesn’t materialize

OVERVIEW

- Bharat Dynamics has secured orders worth Rs 66.6 billion (bn) in FY25. Its order book is around Rs 227 bn as of April 2025, indicating strong revenue visibility.
- Bharat Dynamics continues to receive significant orders for key missile systems like Astra Mk1, Akash, and medium-range surface-to-air missiles, which remain major revenue drivers.
- The company is expanding its manufacturing capacity by setting up new plants to meet growing demand, supported by the Indian government's push to boost the domestic defence sector.
- Strategic collaborations, such as the technology transfer and local production partnership with Rafael Advanced Defence Systems for the Ice Breaker missile, enhance Bharat Dynamics' capabilities.
- Bharat Dynamics is diversifying into emerging areas like drone-delivered payloads and AI-based defence products, positioning itself at the forefront of future warfare technologies.
- The company delivered a record turnover of over Rs 33 bn in FY25, a 40% increase from the previous year, demonstrating strong financial momentum.
- Currently, Bharat Dynamics is well-positioned for growth. However, the stock has already risen sharply over the last few months.

- Over the last one month, the share price of Bharat Dynamics has been flat moving marginally lower to the current levels of Rs 1,870 from Rs 1,901.25.
- The shares of the company have gained 18% in the last one year.
- The stock hit a 52-week high of Rs 2,097 on 30 May 2025. The stock also hit a 52-week low of Rs 897.15 on 18 November 2024



FUTURE OUTLOOK

As of FY26

As a Public Sector Undertaking under the Ministry of Defence, BDL is heavily supported by the Indian government, which holds a 74.93% stake. The company's growth is driven by substantial domestic and international orders.

Domestic Orders:
BDL's main customers are the Indian Army, Navy, and Air Force. It has secured significant contracts, including a large order for the Akash Weapon System (₹8,161 crore) and an ATGM supply order (₹809 crore) for the Indian Army. It also anticipates major future orders for BrahMos supersonic cruise missiles.

International Orders:
BDL is actively expanding its global footprint. As of September 2024, its export order book stood at approximately ₹2,445 crore. The company has government approval to export the Akash SAM to nine countries and is integrated into a global supply chain for the STARStreak missile. Brazil has also shown interest in its defense systems.

BDL's success is fueled by India's "Aatmanirbhar Bharat" initiative, which promotes self-reliance in defense manufacturing. The company's future looks promising, with an estimated order pipeline of ₹42,800 crore to ₹50,000 crore, suggesting continued growth.

CONCLUSION

Conclusion:

While Bharat Dynamics Ltd possesses strong long-term fundamentals, a robust order book, and benefits from favorable government policies, its current market price appears to be trading at a significant premium to its intrinsic value. This suggests that much of the future growth potential may already be factored into the stock price.

- **For Existing Investors:** A **Hold/Sell** is advisable, but with a strong awareness of the current overvaluation. Consider holding if your investment horizon is long-term and you believe the company's strategic growth initiatives will eventually justify the current premium. However, be prepared for potential volatility and corrections given the stretched valuation.

- **For Potential New Investors:** It is strongly recommended to **Avoid buying** at current price levels. The intrinsic value analysis indicates that the stock is expensive, and waiting for a significant correction to a more reasonable valuation would be a more prudent entry strategy.