

IPO NOTE

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09 March, 2018

Issue Details	
Price Band (Rs)	413-428
Face Value(Rs)	10
Issue Size(Rs)	961cr
Issue Type	Book building
Minimum lot	35 shares
Issue Opens	Mar 13,2018
Issue Closes	Mar 15,2018
Listing on	NSE, BSE

Indicative Timeline	On or before
Finalization of Allotment	March 20,2018
Initiation of refund	March 21, 2018
Credit of Shares to Demat Accounts	March 22,2018
Listing on Stock Exchanges	March 23,2018

Other Detail	
Lead Managers	SBI Capital Market Ltd, IDBI Capital, Yes Securities
Registrar	Alankit Assignments Ltd

“A discount of Rs 10/- per equity share will be offered to eligible employees and retail individual bidders”

BHARAT DYNAMICS LTD.

Company Background:

Bharat Dynamics Limited (BDL), a Government of India enterprise under the Ministry of Defense was established in Hyderabad in 1970 to be a manufacturing base for guided missiles and allied defense equipment. It is also conferred with the “Mini Ratna (Category I) status by the Department of Public Enterprises, GoI.

BDL has three manufacturing facilities located in Hyderabad, Bhanur, and Vishakhapatnam. The company engages in the manufacture of Surface to Air missiles (SAMs), Anti-Tank Guided Missiles (ATGMs), underwater weapons, launchers, countermeasures, and test equipment. It is the sole manufacturer in India for SAMs, torpedoes, and ATGMs. It is also the sole supplier of SAMs and ATGMs to the Indian armed forces. Moreover, the company is engaged in the business of refurbishment and life extension of missiles manufactured. BDL intends to offer products such as Akash SAM, light weight torpedoes, and countermeasure dispensing system to the international markets in near future.

Issue Details:

The President of India acting through and represented by the Ministry of Defense (MoD), Government of India, the promoter of BDL, is coming out with the Offer for Sale of up to 2,24,51,953 equity shares of face value of Rs. 10/- each, representing a stake dilution of about 12% and raising Rs. 961cr at the upper price band. Achieving the benefits of listing the equity shares on the stock exchanges is the only prime objective of the offer. BDL will not receive any proceeds from the offer. **A discount of Rs 10/- per equity share will be offered to eligible employees and retail individual bidders.**

Details of selling shareholders:

Sr No	Name of Selling Shareholders	Number of shares to be sold
1	President of India	2,24,51,953

Source: Company RHP, ACMIIL

Category	Allocations	No of shares	Issue Size (Rs. Cr) at	
			Lower Band (Rs 413)	Upper Band (Rs 428)
QIB	50%	1,09,96,875	454	471
Non-Institutional Investors	15%	32,99,063	136	141
Retail Individual	35%	76,97,813	318	329
Employee Reservation		4,58,203	19	20
Total	100%	2,24,51,953	927	961

Source: Company RHP, ACMIIL

Outlook and Valuations

BDL is the leading defense PSU in India in manufacturing guided missile systems. The current guided missile portfolio of the company is broadly made up of SAM systems, ATGMs and light torpedoes. Defense PSU players such as BDL have a strong track record of guided missile production with a well reinforced and holistic value chain in the same. According to Frost & Sullivan, the total Indian guided missile and torpedo market to be worth \$ 24.49 Billion. 79% of the market valuation remains unaddressed and \$ 19.41 Billion worth of opportunities will emerge in the 2017-26 time-frame. Sole product manufacturer, emerging market opportunities, cost-advantages along with expanding manufacturing facilities and superior cash position make BDL a good defense play. At

Distribution Team

E: ipo@acm.co.in
D: +91 22 6132 5931

Analyst

Dhiral Shah
E: dhiral.shah@acm.co.in
D: +91 22 2858 3211

the upper price band of Rs 428/-, the company's stock trades at 21.3x its FY17 EPS of Rs 20.1/-, which looks fairly priced. Hence, we recommend to SUBSCRIBE the issue on a long term basis.

Business Overview:

Bharat Dynamic Ltd is one of the leading defense 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. It is the sole manufacturer in India for SAMs, torpedoes, ATGMs. Further, company is also the sole supplier of SAMs and ATGMs to the Indian armed forces. Additionally, company is also engaged in the business of refurbishment and life extension of missiles manufactured. BDL is also the co-development partner with the DRDO for the next generation of ATGMs and SAMs.

Currently, company has three manufacturing facilities located in Hyderabad, Bhanur, and Vishakhapatnam.

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

Further, all their manufacturing facilities have ISO 14001:2004 certifications from TUV India Private Limited. Moreover, company is also in the process of setting up two additional manufacturing facilities at Ibrahimpatnam (near Hyderabad) and Amravati in Maharashtra which shall be used to manufacture SAMs and Very Short-Range Air Defense Missiles (VSHORADMs) respectively. It is also the nominated production agency for VSHORADMs.

BDL's key customer includes the MoD, other defense PSUs, government bodies under the MoD and other countries. BDL has also demonstrated its ability in manufacturing new age jointly developed air defense systems such as the MRSAM. The organization is also entering into technology transfer agreements with established global players in the SAM space such as Thales. Company operate in a competitive environment and they currently face competition from existing competitors located globally in particular defense companies based in Europe and the United States of America such as Boeing, Raytheon, Lockheed Martin, Rafael Advanced Defense Systems Limited and Roketsan. As of January 31, 2018, company has 17 employees with primary responsibility in marketing, business development, public relations and corporate communications. Further, as on Jan 31, 2018, they have over 3136 full-time employees, which include 889 engineers.

Company has also been awarded with various prestigious awards such as Raksha Mantri's institutional award for "Excellence" in performance for the year 2014 – 15 and the group / individual award in the "Innovation Category" for the year 2014 -15, in recognition of its consistent growth and adaptation and the PSE Excellence Award – 2015 by the Indian Chamber of Commerce in the Miniratna category for operational performance excellence.

The table below sets forth the key events in the history of the company:

Year	Major Events
1970	Established as a PSU under the administrative control of the Ministry of Defence, GOI
1986	Upgradation of the company from Schedule D PSU to Schedule C PSU
1992	Upgradation of the company from Schedule C PSU to Schedule B PSU
2013	Company's gross sales crossed Rs 1000cr
2015	Company's gross sales crossed Rs 2000cr
2017	Company's gross sales crossed Rs 4000cr

Source: Company RHP, ACMIIL

Investment Rationale:

Modern facilities and infrastructure to deliver quality products in a timely manner

The company believes that the infrastructure at their manufacturing facilities combined with vast expertise enable them to cater to the needs of the Indian armed forces in a timely manner. Their manufacturing facilities are equipped with robotic welding machines, four axis machines, flow forming machines, vacuum furnace for heat treatment, automated electroplating shop, 3D – coordinating measuring machine, climatic chambers and 800G acceleration measuring fixture. BDL's Hyderabad manufacturing unit has been automated for material handling and grain loading of SAMs. Further, Vishakhapatnam manufacturing facility is exclusively engaged in the manufacture of torpedoes.

Increase in indigenization of products and implementation of the “Make in India” policy

In order to give an impetus to the Govt's “Make in India” policy, company has implemented a vendor development policy in 2015. They believe that the implementation of this policy has enabled them to improve their supply chain management in order to meet their long-term commitments to their primary customer, the MoD and ensured transparency in identifying and developing new vendors. Further, company has also tie-ups with various domestic and international Original Equipment Manufacturers (OEMs) for the development of their existing and future products. Company has also achieved indigenisation of up to 75 – 90% of the KonkursM ATGM and Milan 2T ATGM. They are also constantly evaluating partnerships for transfer of technology to increase the indigenous content of their products. We believe, increase in indigenization will enable them to reduce reliance on imports and thus decreases the cost of products.

Good Quality control of products

BDL's products are primarily single shot devices which call for the highest standards of reliability. Company's products undergo rigorous trials by the Indian armed forces prior to their induction and proof firing posts their induction. In order to ensure that their products qualify the trials, they have set up various quality control processes such as multi-level inspection at vendor's plants, inspection of outsourced materials / components, subassembly checks and final checks of their products in order to ensure highest success rates of their products. Further, all their manufacturing facilities have ISO 14001:2004 certifications from TUV India Private Limited. Their Hyderabad (Akash Division) and Bhanur manufacturing units have AS 9100C certifications (based on and including ISO 9001:2008) from NVT Quality Certification Private Limited. Further, their quality management systems and management system for the Hyderabad manufacturing unit have been certified ISO 9001:2008 and ISO 9001: 2015 compliant, by the IRClass Systems and Solutions Private Limited and TUV India Private Limited respectively.

Experienced board and senior management team

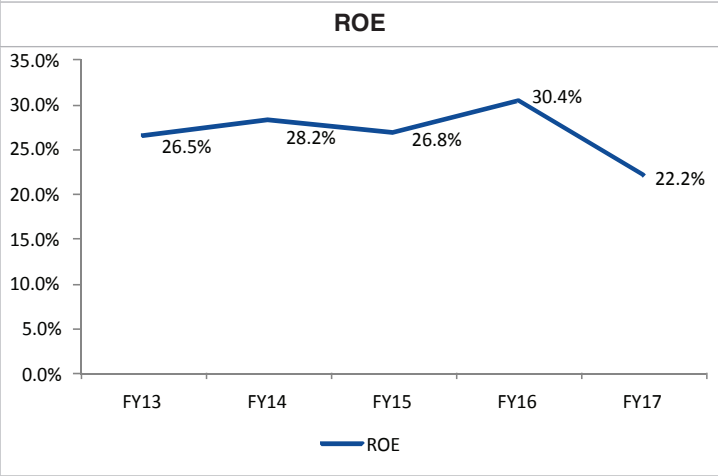
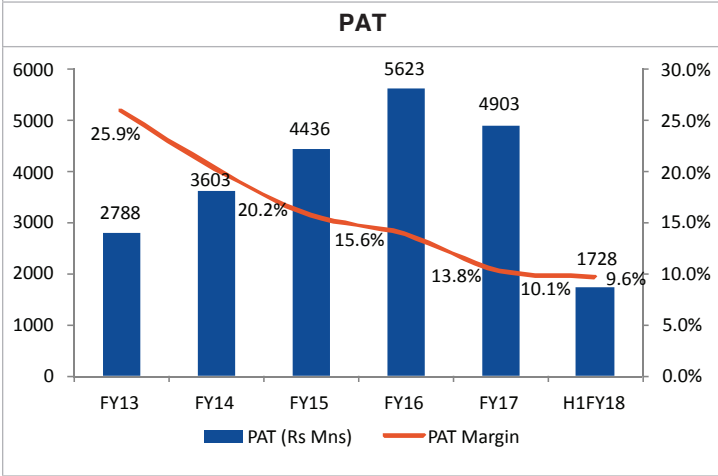
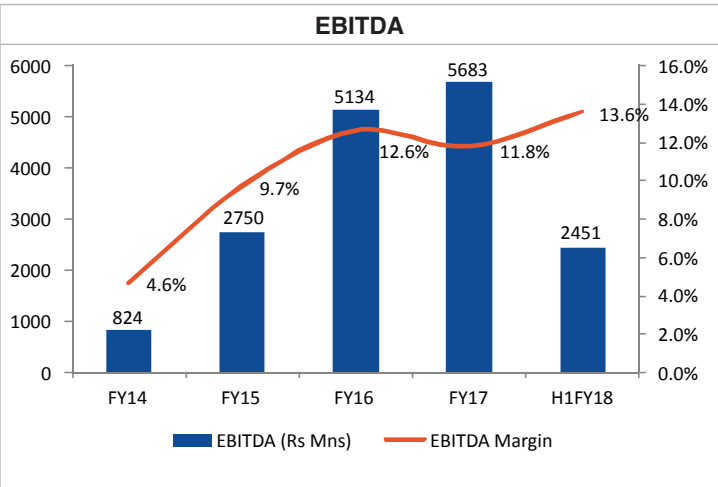
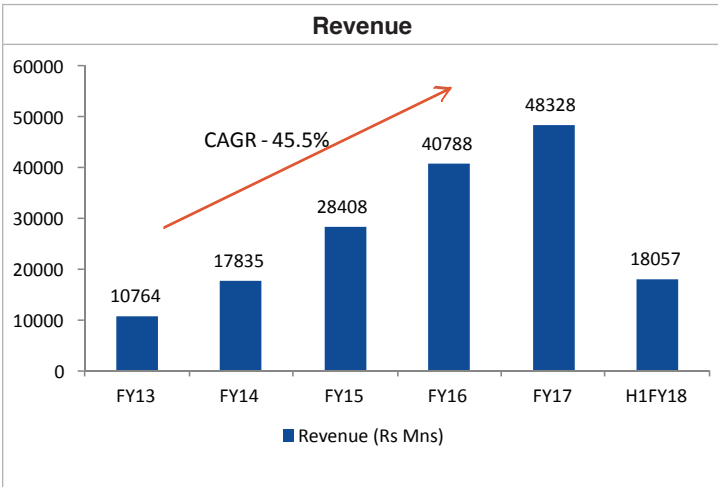
BDL has diversified Board with directors and each of their key management team has a several years of experience in the defense industry. Some of their senior management has grown within their organization from 122 trainee positions to head their respective departments. Company believes that they have achieved a measure of success in attracting an experienced senior management team with operational and technical capabilities, management skills, business development experience and financial management skills. Further, they have a large pool of experienced engineers. As of January 31, 2018, engineers constitute 28.35% of their total employees. Moreover, company believe that their employees are instrumental to company success including for the quality of their products and services and their ability to operate in a cost-efficient manner, helping them to achieve a continuous profit margin and operate efficiently.

Strong order book, robust cash position & established financial track record

As of January 31, 2018, company's outstanding order book stands at Rs 10,543cr & this give revenue visibility for next two & half year. Further, company has also delivered consistent growth over the last five financial years both in terms of financial and operational metrics. In last five years i.e. FY13-FY17, company's revenue & profitability has grown at a CAGR of 46% & 15% respectively. Also, in last few years i.e. FY14-FY17, company's operating margin has improved from 4.6% in FY14 to 11.8% in FY17. Moreover, company has also increased its R&D activities in order to provide novel & better product to their customers. The company's R&D expenses has grown at a CAGR of 23.6% from Rs 23cr in FY15 to Rs35cr in FY17. Further, in last few years company incurred capex worth Rs 600cr for modernization & upgradation of existing facilities & setting up of two new Greenfield capacities. However, company has robust cash & bank position of Rs 1311cr as on H1FY18. Also, over last five years, company has announced a consistent dividend payout.

Risk Factors:

1. Company primarily depends on single customers i.e. Indian armed forces. A decline or reprioritization of the Indian defense budget, the reduction in their orders, termination of contracts or failure to succeed in tendering projects and deviations in the short term and long-term policies of the MoD or the Indian armed forces in the future would have a material adverse impact on their business.
2. Company is subject to number of procurement rules and regulations of the MoD, Government regulations and other rules and regulations. Their business and reputation could be adversely affected if they fail to comply with applicable rules.
3. Company's operating and financial performance may be adversely affected by lack of or delays in the award of long-term contracts or cancellation/ modification of existing contracts.
4. Company incur and expect to continue to incur research, design and development costs, which may not lead to satisfactory returns or to successful new products in line with changing market demand.



Source: Company RHP, ACMIIL

Financials

Profit & Loss statement

Particulars (Rs Mns)	FY13	FY14	FY15	FY16	FY17	H1FY18
Revenue from Operations	10764	17835	28408	40788	48328	18057
Add: changes in inventories	956	223	-266	1378	1355	3098
Total Revenue	11720	18058	28142	42166	49683	21155
Less: Operating exp						
Cost of raw material consumed	7796	12260	18539	26231	31192	12608
Other manufacturing exp	226	232	1199	3330	2384	1808
Employee Benefit Expenses	2590	3073	3125	3262	4484	2224
Selling expenses	59	53	55	58	56	15
Other Expenses	1174	1616	2474	4151	5884	2049
Total Expenses	11845	17234	25392	37032	44000	18704
EBITDA	-125	824	2750	5134	5683	2451
EBITDA %	-1.2%	4.6%	9.7%	12.6%	11.8%	13.6%
Less : Dep & Amortization	417	394	667	532	622	302
EBIT (before Other income)	-542	430	2083	4602	5061	2149
Add : Other Income	4637	4999	4390	3848	2298	748
EBIT (After Other Income)	4095	5429	6473	8450	7359	2897
Less : Finance cost	4	4	33	35	37	15
PBT	4091	5425	6440	8415	7322	2882
Less : Tax	1303	1822	2004	2792	2419	1154
Net Profit	2788	3603	4436	5623	4903	1728
PAT %	25.9%	20.2%	15.6%	13.8%	10.1%	9.6%
EPS (Rs)	10.0	12.9	15.9	20.2	20.1	7.1

Source: Company RHP, ACMIL

Balance sheet

Particulars (Rs Mns)	FY13	FY14	FY15	FY16	FY17	H1FY18
Share Capital	1150	1150	1150	978	1222	916
Reserves	9362	11607	15377	17535	20902	15390
Total Shareholders Fund	10512	12757	16527	18513	22124	16306
Non Current Liabilities						
Long term borrowings	469	450	530	564	516	498
Other long term liabilities	0	0	18623	12143	4638	3506
Long term provisions	627	0	22	11	179	273
Total Non Current Liabilities	1096	450	19175	12718	5333	4277
Current Liabilities						
Short term borrowings	0	0	0	0	0	0
Trade Payables	2864	3632	5141	13431	14951	15249
Other Current Liabilities	56791	64314	40176	46992	36195	35986
Short Term Provision	1243	1304	2010	3532	6233	9499
Other financial liabilities	0	0	1091	1037	1171	1533
Current tax Liabilities	0	0	0	183	0	0
Total Current Liabilities	60898	69250	48418	65175	58550	62267
Total Liabilities	72,506	82,457	84,120	96,406	86,007	82,850
Assets						
Tangible Assets	2673	3424	3879	5576	6053	5988
Intangible assets	154	240	1370	1402	1612	1615
CWIP	632	638	1351	1251	1301	1761
Non Current Investment	5	5	29	29	29	37
Long term loans & advances	134	119	38	38	32	37
Other Financial Assets	0	0	515	548	502	484
Deferred tax assets	274	16	398	768	1513	1925
Other Non current assets	456	437	358	344	330	323
Total Non Current Assets	4328	4879	7938	9956	11372	12170
Current Asset						
Inventories	10013	13750	14757	20577	22511	21594
Trade Receivables	2754	4132	3348	1449	3564	1298
Cash & Cash Eq	39622	42665	1239	2325	462	4661
Bank Balance	0	0	35450	30099	16918	8449
Short Term Loans & Advances	14480	15051	25	27	29	23
Other financial assets	0	0	7414	14876	17287	19190
Current tax assets	0	0	201	0	39	48
Other Current Assets	1309	1980	13748	17097	13825	15417
Total Current Asset	68178	77578	76182	86450	74635	70680
Total Asset	72,506	82,457	84,120	96,406	86,007	82,850

Source: Company RHP, ACMIIL

Retail Research Desk:

Akhil Rathi D: 91 22 2858 3210
Hrishikesh Yedve D: 91 22 2858 3207
Vrinda Aditya D: 91 22 2858 3209
Neeraj Sharma D: 91 22 2858 3208
Rohan Gawale D: 91 22 2858 3213
Dhiral Shah D: 91 22 2858 3211

Email: retailresearch@acm.co.in

Research Analyst Registration

Number: INH000002483

CIN: U65990MH1993PLC075388

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