



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Defence
Offer For Sale (Shares)	22,451,953
Net Offer to the Public	22,451,953
Employee Reservation	458,203
Issue Size (Rs. Cr.)	927-961
Price Band (Rs.)	413-428
Offer Date	13-Mar-18
Close Date	15-Mar-18
Face Value	10
Lot Size	35

***A discount of Rs 10 per equity share on offer price is offered to retail and employees**

Issue Composition

	In shares
Total Issue for Sale	21,993,750
QIB	10,996,875
NIB	3,299,063
Retail	7,697,813

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	87.75%
QIB	0.00%	6.00%
NIB	0.00%	1.80%
Retail	0.00%	4.45%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- To carry out the disinvestment of Equity Shares by the Selling Shareholder;
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

Book Running Lead Manager

- IDBI Capital Market Services Limited
- SBI Capital Markets Limited
- Yes Securities (India) Limited

Name of the registrar Alankit Assignments Ltd

About the Company

Incorporated in 1970, Bharat Dynamics is engaged in the manufacture of Surface-to-Air Missiles (SAMs), Anti-Tank Guided Missiles (ATGMs), underwater weapons, launchers, countermeasures and test equipment. The company, which is the sole manufacturer for SAMs, torpedoes and ATGMs in India, is also the sole supplier of SAMs and ATGMs to the Indian armed forces. The Hyderabad-headquartered company has three manufacturing facilities located in Hyderabad, Bhanur and Visakhapatnam. It is also setting up two more manufacturing facilities at Ibrahimpatnam, near Hyderabad and Amravati in Maharashtra which will be used to manufacture SAMs and very short range air defence missiles, respectively.

Strength

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

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

Increase in indigenisation of its products and implementation of the “Make in India” policy:

The Company believes that its implementation of vendor development policy in 2015 has enabled it to improve its supply chain management in order to meet its long term commitments to its primary customer, the MoD and ensured transparency in identifying and developing new vendors. The company identifies technically qualified vendors and suppliers and place purchase orders to ensure timely delivery of materials. The company has tie-ups with various domestic and international Original Equipment Manufacturers (OEMs) for the development of its existing and future products. The company is constantly evaluating partnerships for transfer of technology to increase the indigenous content of its products. Increase in indigenisation will enable it to reduce its reliance on imports and the cost of its products.

Quality control of its products: Its products are primarily single shot devices which call for the highest standards of reliability. All its manufacturing facilities have ISO 14001:2004 certifications from TUV India Private Limited. In order to ensure that its products qualify the trials, the company has 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 its products in order to ensure highest success rates of its products. The company also organizes periodical meetings with the Indian armed forces for monitoring progress and supply status of its products.

Strong order book and established financial track record of delivering growth: As of January 31, 2018, its outstanding order book was ₹10543cr. It had delivered consistent growth over the last five financial years both in terms of financial and operational metrics. its revenue from operations and profit for the year has increased from ₹2840.82 Cr. and ₹443.55 Cr respectively, in Fiscal 2015 to ₹4832.76 Cr. and ₹490.32 Cr, respectively, in Fiscal 2017 at a CAGR of 30.43% and 5.14% respectively.

Strategy

Continue to invest in infrastructure: The Company believes its continuous investment in infrastructure in terms of its upcoming manufacturing facilities at Ibrahimapatnam and Amravati will enable it to cater to the growing demand of its customers. The company also intends to automate its production systems at its manufacturing facility in Hyderabad to increase the production of SAMs. The company is also in the process of establishing a test fire range in Rachakonda, Telangana, which the company believes will result in operational advantages and cost efficiencies.

Focus on R&D: The Company believes that the recent changes to the government policies allowing private sector companies to participate in defence contracts will provide significant competition to the company. In order to address these challenges, the company intends to increase its R&D activities in order to provide novel and better products to its customers. The company also intends to carry out process improvements, in order to improve its productivity and efficiency of its operations and thereby lower costs. Its R&D expenses have grown at a CAGR of 23.60% from ₹22.72 cr for the financial year 2015 to ₹34.71 cr for the financial year 2017. The company has established the missile development group with the objective to design and develop missiles. The company has also established various technological labs such as RF labs, laser labs, aerodynamic labs and seeker labs to develop seeker technologies. The company is conducting R&D for an improved version of the second generation of the Konkurs-MATGM.

Developing new products: The Company intends to leverage its experience to develop new products such as new generation SAMs, ATGMs, and heavy weight torpedoes, which will enable it to further increase its revenues. The company is also the joint development partner with the DRDO for the next generation of ATGMs and SAMs. The company has also entered into several MoUs and non-disclosure agreements with various companies for developing new products and transfer of technologies. The company believes that development of new products will enable it to diversify its offerings and help it reduce its reliance on its current products.

Provide its product offerings to the international market: The Company primarily caters to the requirements of the Indian armed forces. The GoI has on a nomination basis chosen the company to supply various products to the Indian armed forces. The GoI is encouraging its Company for export of its products. The company intends to interact with potential overseas customers with a view to exporting its products and thereby reduce its reliance on the GoI for future orders. The company intends to offer products such as Akash SAM, light weight torpedoes and countermeasure dispensing system to the international markets. The company is currently exporting the light weight torpedoes.

Risk Factors

The business is dependent on single customer: The Company is primarily dependent on a single customer, the Indian armed forces through the Ministry of Defence, Government of India ("MoD"). A decline or reprioritization of the Indian defence 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 will have a material adverse impact on its business, financial condition, and results of operations, growth prospects and cash flows.

Business operations are based out of three units in Telangana and Andhra Pradesh: The manufacturing units of the company are located in Hyderabad and Bhanur of Telangana and Vishakhapatnam, Andhra Pradesh. The loss of, or shutdown of, its operations at any of its units in Telangana and Andhra Pradesh will have a material adverse effect on its business, financial condition and results of operations.

Business is subject to a number of procurement rules and regulations of the MoD, Government regulations and other rules and regulations: As the company is required to comply with and are affected by policies, rules and regulations of the MoD, in particular the DPP and its amendments/ revision from time to time relating to the award of the MoD contracts, its business and reputation could be adversely affected, if it fails to comply with applicable rules.

Its business is substantially relies on licenses from foreign OEMs and the DRDO: The company is continuously dependent on its key Original Equipment Manufacturers (“OEM”) for subassemblies / components, single source suppliers and sub-contractors. Any failure on the performance of any of them could have a material impact on its operations.

The business is dependent on information technology infrastructure: The Company is dependent on its information technology infrastructure to conduct its business activities, manage risks, implement its internal control systems and manage and monitor its business operations.

Peer comparison

As per the company, there are no listed peers in India which are engaged in a similar line of business as the Company, hence comparison with industry peers is not applicable

Valuation

Considering the valuation at upper price band of Rs. 428, EPS and P/E of halfyear annualised FY2018 are Rs. 18.83 and 22.73 multiple respectively and at a lower price band of Rs. 413, P/E multiple is 21.93; at upper price band of Rs. 428, book value and P/B of halfyear annualised FY2018 are Rs. 98.39 and 4.35 multiple respectively and at a lower price band of Rs. 413, P/B multiple is 4.20. No change in pre and post issue EPS as the company is not making fresh issue of capital.

Industry outlook

The Indian defence market is in a state of transition, as a result of new policies promulgated by the government. The Indian Armed Forces have not been able to spend the entire defence budget allocated, owing to straitjacketed procurement procedures and inherent delays; and the gap between allocated and actual defence spending has been increasing over the years. The government is outlining policies to convert India into a defence hub, with indigenous manufacturing being given the highest priority. Defence exports will be permitted and foreign direct investment (FDI) holdings have been tweaked to enable more foreign original equipment manufacturers (OEMs) to set up ventures in India. Several multi-billion dollar projects are expected to come to fruition.

Outlook

Bharat Dynamics Limited is India's leading defence PSUs. As of January 31, 2018, its outstanding order book was Rs. 10543 cr. Major products in current order book include the Akash Weapon System and other missiles. Its revenue grew from Rs 3253 cr in FY 15 to Rs. 5198 cr. in FY 2017, which indicates strong revenue growth in the last 2-3 years.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 13, 2018
Bid/Offer Closing Date	March 15, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	March 20, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	March 21, 2018
Credit of Equity Shares to depository accounts of Allottees	March 22, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	March 23, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	2,115.46	4,968.26	4,216.62
management fees			
Total expenditure	1,870.44	4,400.02	3,703.37
Operating Profit	245.03	568.23	513.25
OPM%	11.58	11.44	12.17
Other Income	74.79	229.82	384.76
PBDIT	319.81	798.05	898.01
Depreciation	30.25	62.19	53.22
PBIT	289.56	735.86	844.79
Interest	1.55	3.68	3.52
PBT	288.01	732.19	841.27
Exceptional Item prior period	0.00	0.00	0.00
Tax	115.42	241.87	279.20
Profit After Tax	172.59	490.32	562.07

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 31-Mar-16
Non-current assets			
Property, Plant and Equipment	598.84	605.34	557.64
Capital Work-in-Progress	176.12	130.12	125.08
Investment Property	0.01	0.01	0.01
Intangible Assets	158.56	160.14	139.12
Intangible Assets under development	2.89	1.13	1.13
Investments	3.69	2.95	2.95
Loans	3.71	3.23	3.83
Other Financial Assets	48.40	50.20	54.80
Deferred Tax Assets (net)	192.48	151.33	76.83
Other Non-current Assets	32.32	33.02	34.41
Total Non - current Assets	1,217.02	1,137.46	995.78
Current assets			
Investories	2,159.41	2,251.13	2,057.66
Financial Assets	0.00	0.00	0.00
Trade Receivables	129.77	356.41	144.86
Cash and Bank Balance	466.12	46.20	232.52
Bank balances other than (ii) above	844.90	1,691.81	3,009.97
Loans	2.28	2.89	2.56
Other Financial Assets	1,919.01	1,728.73	1,487.59
Current Tax Assets (Net)	4.79	3.92	0.00
Other Current Assets	1,541.69	1,382.24	1,709.69
Total current assets	7,067.96	7,463.33	8,644.85
Total Assets	8,284.98	8,600.79	9,640.63
Non-current liabilities			
Other Financial Liabilities	49.78	51.63	56.36
Provisions	27.32	17.87	1.14
Other Non-current Liabilities	350.64	463.82	1,214.30
Total non-current liabilities	427.73	533.32	1,271.80
Current liabilities			
Trade Payables	1,524.81	1,495.09	1,343.11
Other Financial Liabilities	153.29	117.13	103.73
Other Current Liabilities	3,598.58	3,619.50	4,699.13
Provisions	949.91	623.30	353.25
Current Tax Liabilities (Net)	0.00	0.00	18.38
Total current liabilities	6,226.60	5,855.01	6,517.60
Total	6,654.34	6,388.33	7,789.39
NET Worth	1,630.64	2,212.46	1,851.24
Net worth represented by:			
Share capital	91.64	122.19	97.75
Other Equity	1,539.00	2,090.27	1,753.49
Net Worth	1,630.64	2,212.46	1,851.24

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

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