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# VALUATION MULTIPLE SERIES INDUSTRY FOCUS - DEFENCE 1<sup>ST</sup> EDITION

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# Methodology for Estimating Valuation Multiples

This Report's goal is to explain how the business valuation, financial performance, and corresponding valuation multiples for companies operating in the Defence Industry have changed over time.

The market bases its future growth projections & prospects, business valuation, and associated valuation multiples for enterprises on past financial performance.

The Indian Defence ecosystem is a confluence between the Government and the Defence manufacturing industry. Ministry of Defence has set a target of achieving a turnover of INR 2.05 billion in aerospace and defence manufacturing by 2025, which includes INR 410 billion exports. The Union Budget for Financial Year 2023-24 envisages an outlay of INR 5920 billion, which is 13.18 % of the total budget. This includes an amount of INR 1377 billion for Defence Pensions. The total Defence Budget represents an enhancement of INR 681 billion (13%) over the Budget of 2022-23. Over the next 5-7 years, the Government of India plans to spend INR 10.66 trillion for fleet modernisation across all armed services.

Source: India Brand Equity Foundation

We have identified Defence as the key sector, with value creation flowing to and from related sectors, that has a significant influence on the overall Gross Domestic Output of India. Further, we have identified 7 companies ("Representative Companies") that fairly represents the technical dynamics of the Defence Industry.

As a part of this research, we have derived cash operating margin (EBITDA Margin) and net profit margin (PAT Margin) for Representative Companies in Automotive Industry. Along with various other multiples:- Enterprise Value to Sales, Enterprise Value to EBITDA, P/E Ratio, P/B Ratio, etc.

# This Report is providing the information of the Representative Companies, namely:



Hindustan Aeronautics Limited (HAL) was established in 1963 with headquarter in Bangalore. It has over 30,000 employees in its workforce. Engaged in the design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including, aircraft, helicopters, aero-engines, avionics, accessories, aerospace structures and industrial marine gas turbines. Operations are organised into five complexes, namely the Bangalore Complex, MiG Complex, Helicopter Complex, Accessories Complex, and Design Complex, which together include 20 production divisions and 10 Research and Design centres (“R&D Centres”) located across India. Some of the products they manufacture include 'HAWK', 'DORNIER' etc. They hold a prominent position in Industry due to their indigenous design and manufacturing as well as strategic partnerships through technology transfer and licence agreements with foreign OEMs to manufacture their products.



Bharat Electronics Limited was established in 1954 as a state-owned enterprise under the Ministry of Defence, Government of India, with headquarter in Bangalore. BEL is a renowned defence electronics company, known for its strategic importance, design and development capabilities, manufacturing excellence, and collaborations in the industry with a workforce of over 10,000 employees. It engages in manufacturing of specialised electronic equipment requirements of the Indian Defence Services. BEL produces a wide range of equipments for areas such as defence communication, radars, naval systems, c4i systems, weapon systems, homeland security, telecom & broadcast systems, electronic warfare, tank electronics, electro-optics, professional electronic components and solar photovoltaic systems. They have 9 manufacturing units spread across India with customers both overseas as well as in domestic market. It plays an important role in defence electronics industry by supplying advanced electronics systems and solutions to the armed forces.



Bharat Dynamics Limited was established in 1970, headquartered in Hyderabad, as a PSU under the Ministry of Defence, Government of India to be the manufacturing base for guided missile systems and allied equipment for the Indian Armed Forces. It has over 3500 employees. Since its inception, BDL has been working in collaboration with DRDO & foreign Original Equipment Manufacturers (OEMs) for manufacture and supply of various missiles and allied equipment to Indian Armed Forces. BDL has four manufacturing units, out of which three are located in Telangana and one in Andhra Pradesh. It specializes in the production of a wide range of guided missile systems and defence equipment. Its product portfolio includes surface-to-air missiles, anti-tank guided missiles, strategic missiles, torpedoes and countermeasure systems namely, 'VARUNASTRA', 'DISHANI' etc.



Bharat Earth Movers Ltd was established in 1964, as a PSU under the Ministry of Defence, Government of India, with a workforce of over 5500 employees. It has headquarters in Bangalore. It was formed with the objective of designing, manufacturing, and supplying heavy equipment to support the country's infrastructure development and defence requirements. BEML specializes in the production of a wide range of heavy equipment for different sectors. Its product portfolio includes: armored vehicles like infantry combat vehicles, armored recovery vehicles, and mine-protected vehicles like 'DRDO Sarvtra bridge system', 'BD-50 military bulldozer' etc. It also offers artillery systems, bridge laying equipment, and other defence-related products.



Garden Reach Shipbuilders & Engineers Limited was established in 1934, headquartered in Kolkata. It was initially set up as a small repair workshop but has since grown into a major shipbuilding and engineering company in India. GRSE specializes in the construction of a wide range of vessels for both the Indian Navy and export markets. Its product portfolio includes: warships for the Indian Navy, including frigates, corvettes, offshore patrol vessels, and fast attack crafts, commercial ships such as bulk carriers, tankers, passenger ships, and specialized vessels for maritime transportation and provides engineering solutions for the maritime industry, including ship repair and modernization, retrofitting, and refits. Some of known frigates include INS Brahmaputra, INS Betwa and INS Beas etc.



Astra Microwave Products Limited (AMPL) was established in 1991, headquartered in Hyderabad. AMPL specializing in the design, development, and manufacturing of microwave and RF (radio frequency) components and systems for the defence, space, and telecommunications industries. Astra Microwave offers a diverse range of products in the microwave and RF domain. Its product portfolio includes: RF & microwave components, microwave subsystems, communication systems, spaceborne systems and test and measurement equipment.

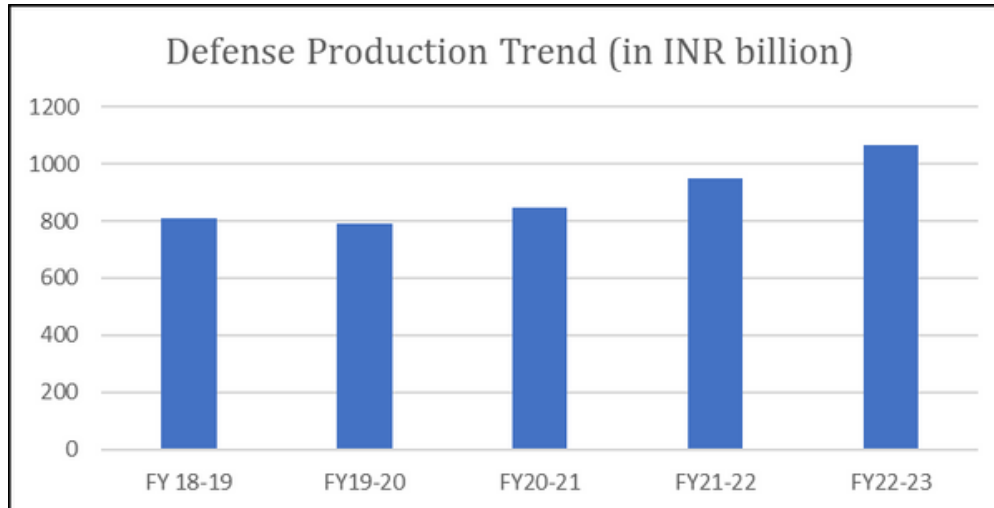


being there...

Zen Technologies Limited was established in 1993. Zen Technologies is headquartered in Hyderabad, it designs, develops and manufactures state-of-the-art Combat Training Solutions for the training of Defence & Security Forces worldwide and is a leader in providing Counter-Drone Solutions for safeguarding the borders, critical infrastructures etc. Zen Technologies has a portfolio of over 40 products designed and developed indigenously ranging from live fire, live instrumented, virtual and constructive training systems for individual and collective training and Counter Drone Solutions.



# Growth trend of Defence Industry during the past 5 years



The Defence Industry has grown tremendously from FY19 - FY23 with a CAGR of 7.12% with the increase in production from INR 811 billion to INR 1068 billion in FY19 to FY23 respectively.

- Public sector has contributed to more than 50% of production in the last 5 years.
- The Indian Defence sector is one of the world’s largest and most profitable industries, with a 10-year pipeline of over INR 18000 billion in aerospace and defence capital expenditure and a projected medium-term investment of INR 10000 billion.
- The Draft Defence Production and Export Promotion Policy (DPEPP) was published in 2020, with the ambitious goal of increasing defence turnover from approximately INR 800 billion in 2019-20 to approximately INR 1,750 billion by 2025, including the export of INR 350 billion.
- Defence exports grew by 334% in last five years and India now exports to over 75 countries due to collaborative efforts.
- The FDI maximum in defence manufacturing under the automatic route has been raised from 49% to 74%.

# Financial Performance of Representative Companies

## Revenue

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold.

## EBITDA Margin

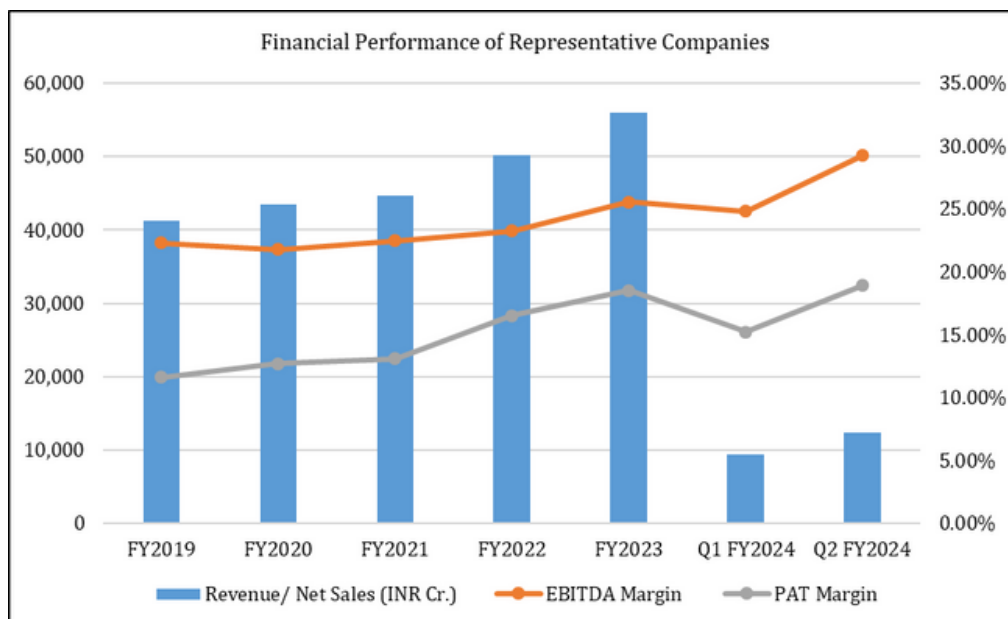
EBITDA margin is a profitability ratio that measures how much earnings a company is generating before interest, taxes, depreciation and amortization, as a percentage of revenue.

EBITDA Margin = EBITDA/Revenue. It is also referred to as 'Cash Operating margin'.

## PAT Margin

Profit After Tax refers to the amount that remains after a company has paid off all of its operating and non operating expenses, interest and taxes.

PAT Margin = PAT/Revenue.



The Defence Industry has grown at a steady rate over the last 5 years with revenue growth at a CAGR of 7.91% from FY19 to FY23.

- The revenue numbers have been growing steadily from INR 412.67 Bn to INR 502.09 Bn in FY19 and FY 22 respectively. Further it increases to 559.70 Bn in FY23.
- The EBITDA margins fall from 22.30% to 21.76% in FY19 and FY20 respectively. After which it has grown to 22.49% and 25.53% in FY21 and FY23 respectively.
- The PAT margins have been rising constantly with an upward movement from 11.61% to 16.52 in FY19 and FY22 respectively, further rising to 18.53% in FY23.
- Revenue numbers have increased by 31% QoQ in FY24, while PAT and EBITDA margins have expanded by 5% and 3.5% respectively.
- Growth of Defence Industry both Sales and PAT wise attributes to increased government support towards the industry, growing Indian economy requiring more defence related resources, increased tensions with neighboring countries like Pakistan and China and significant rise in the number of exports.
- The Industry absorbed Covid shocks resiliently and has shown promising numbers since then.

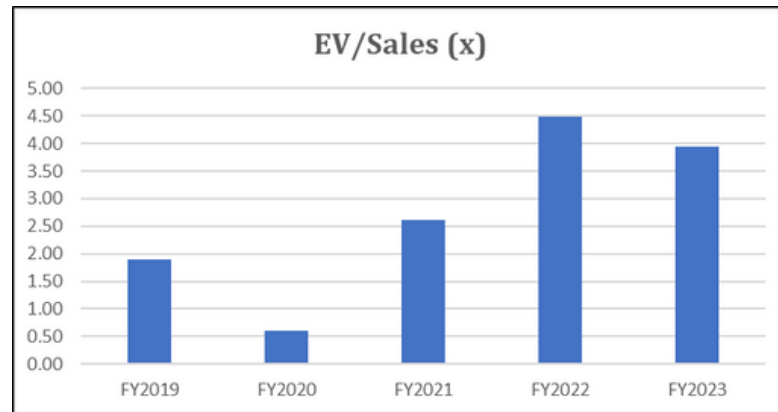




# Multiples: Defence

## EV/Sales

Enterprise value-to-sales (EV/sales) is financial valuation measure that compares the enterprise value (EV) of a company to its annual sales. The EV/sales multiple gives a quantifiable metric of how to value a company based on its sales while taking account of both the company's equity and debt.

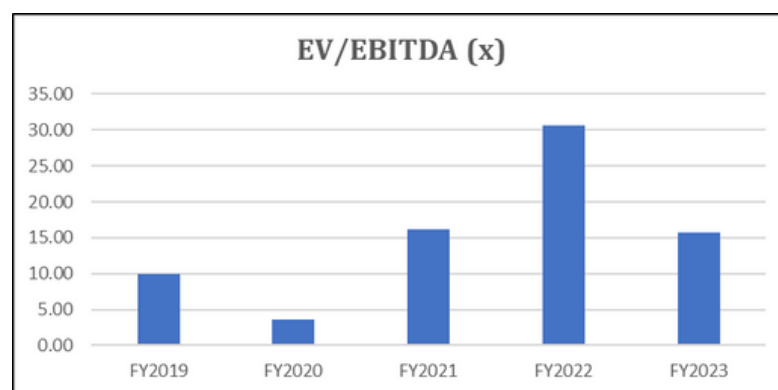


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	1.90	0.61	2.61	4.49	3.94

EV/Sales falls sharply from 1.9x to 0.61x in FY19 and FY20 respectively, which then starts to recover swiftly to 2.61x in FY21, further surpassing FY21 levels to register highest level of 4.49x in FY22 after which it decreases to 3.94x in FY23.

## EV/EBITDA

EV/EBITDA multiple is used to project the Enterprise Value (EV) of a company in terms of the EBITDA.

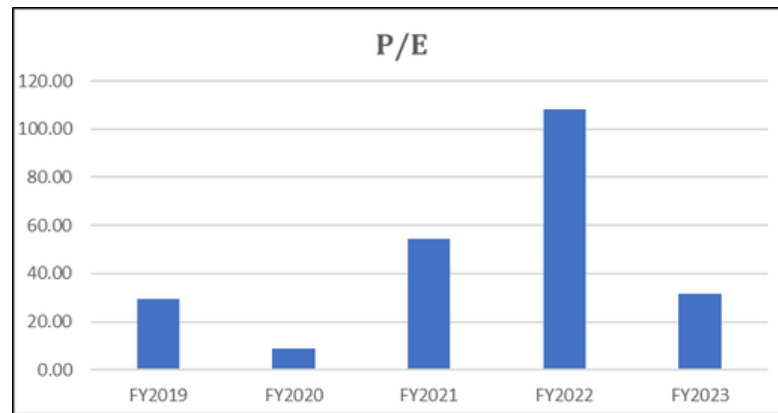


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/EBITDA (x)	10.01	3.68	16.14	30.57	15.71

EV/EBITDA falls sharply from 10.01x to 3.68x in FY19 and FY20 respectively, further it increases significantly to 16.14x and 30.57x in FY21 and FY22 respectively, after which it falls to 15.71x in FY23.

## P/E

Price to earnings ratio measures the company's current share price relative to its earnings per share. P/E ratios are used to determine the relative value of a company's shares.

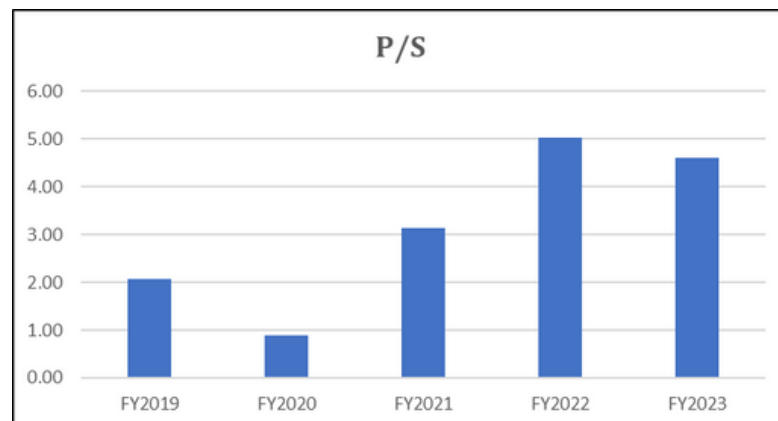


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
P/E (x)	29.44	8.91	54.24	108.26	31.79

P/E begins to fall from 29.44x to 8.91x in FY19 to FY20 respectively. Further it starts to recover and surpass FY19 levels by many folds and reaches 108.26x in FY22 which is the highest recorded P/E in last 5 years but falls sharply to 31.79x in FY23.

## P/S

P/S ratio shows a company's market capitalization divided by the company's sales for the previous 12 months. It is a measure of the value investors are receiving from a company's stock by indicating how much equity is required to generate \$1 of revenue.

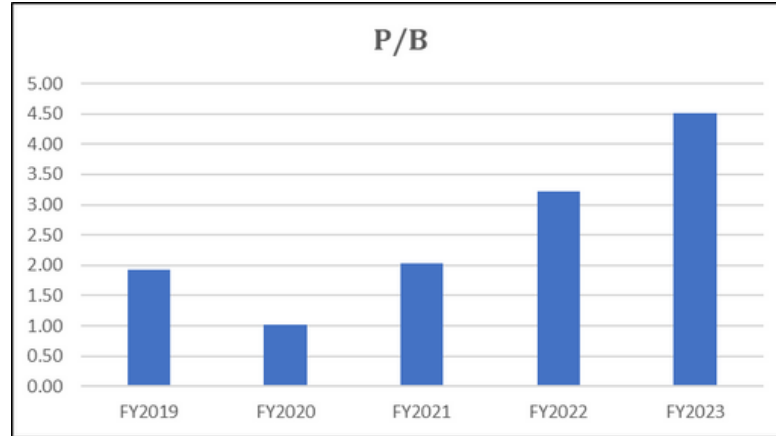


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
P/S (x)	2.07	0.89	3.13	5.03	4.6

P/S falls sharply from 2.07x to 0.89x in FY19 and FY20 respectively, further it shows a positive trend and registers its highest P/S(x) at 5.03x in FY22 respectively, after which it decreases marginally to 4.6x in FY23.

**P/B**

Price to book ratio compares a firm's market capitalization to its book value and is usually used to locate undervalued companies. This multiple is calculated by dividing the company's current stock price per share by its book value per share.



Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
P/B (x)	1.92	1.02	2.03	3.22	4.51

P/B shows a drastic fall from 1.92x to 1.02x in FY19 and FY20 respectively, further it rises steadily to 3.22x in FY22 and with further increase it surpasses FY22 level and registers 4.51x in FY23.



# About RNM Capital Advisors

RNM Capital Advisors (“RNM”), erstwhile known as RNM & Associates, is an associate firm of RN Marwah & Co. LLP, Chartered Accountants.

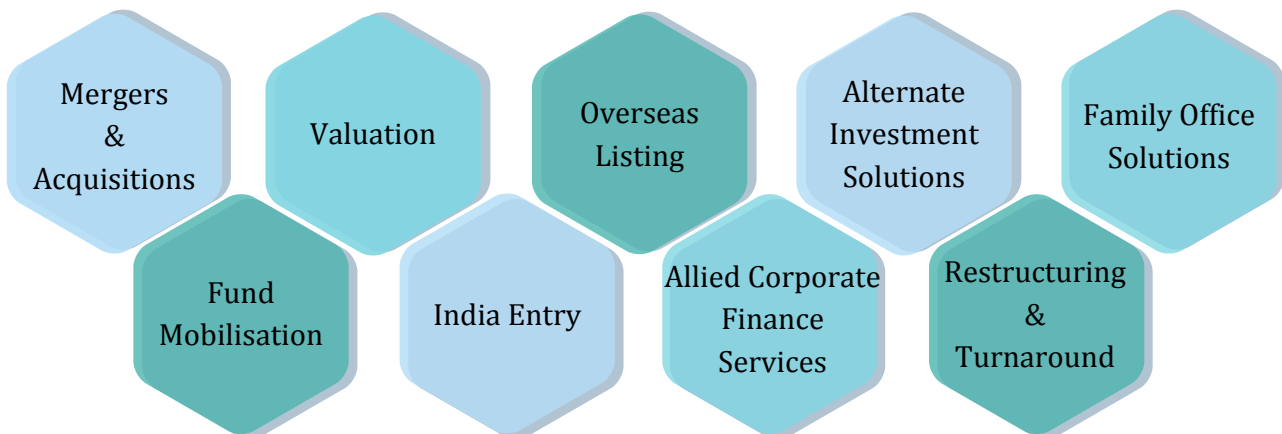
Established in year 2009, RNM is a mid-market focused boutique investment banking firm with head office in Janpath, Connaught Place, New Delhi. RNM Capital also operates from its branch office in Bangalore and Gurugram.

RNM provides advisory services to its leading clients across sectors and geographies in area of mergers & acquisitions, joint ventures/ collaborations, fund mobilization, restructuring & turnaround, valuations, due diligence, India entry, other allied corporate finance matters, family office solutions and alternate investment solutions. RNM boasts strong direct access to Promoters of Indian Corporates across sectors.

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RNM's has strong relationship with most of the active PE/VC Funds, Banks, NBFCs and Financial Institutions and experience of closing multiple fund raise assignments under most challenging situations.

## Our Services



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