

Q4FY25 Quarterly Results Review

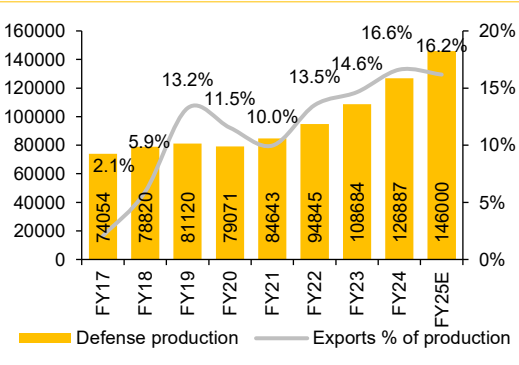
Defense & Aerospace Sector

Choice

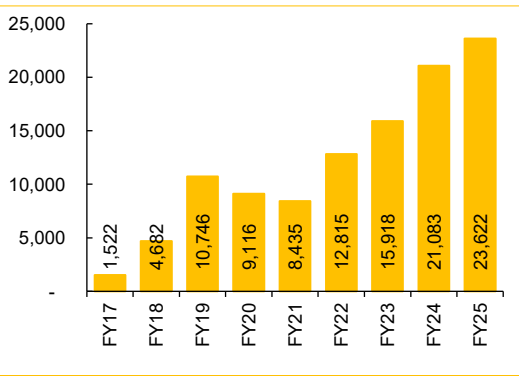
Recommendation			
Company (Ticker)	CMP (INR)	TP (INR)	Rated
Astra Microwave Product (ASTM)	1,130	1,050	Reduce
Apollo Micro Systems (APOLLO)	185	200	Buy
Azad Engineering (AZAD)	1,611	1,865	Reduce
Bharat Dynamics (BDL)	1,870	1,785	Reduce
Bharat Electronics (BHE)	387	420	Buy
Centum Electronics (CTE)	2,205	2,050	Sell
DCX Systems (DCXINDIA)	291	260	Sell
Data Patterns India (DATAPATT)	2,929	2,915	Add
Hindustan Aeronautics (HNAL)	4,956	5,570	Add

\*CMP as on June 12, 2025

India's defense Production vs Exports over FY17-25E (INR Cr)



Defense export from FY17-25 (INR Cr)



Top Pick → Hindustan Aeronautics Ltd

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Operation Sindoor: A strategic win fueling India's defense investment story

Operation Sindoor has been a decisive strategic success, serving as a strong structural tailwind for India's domestic defense mfg. sector. This operation validated India's indigenous defense tech, boosting armed forces' confidence and global credibility. Strategic focus is expanding into high-value areas like space surveillance, missiles, and electronic warfare, supported by INR 225 Bn+ in CCS-approved projects and INR 400–500 Bn in emergency procurement.

Defense exports hit a record INR 236 Bn in FY25, with strong traction in Europe amid rising budgets. Indian firms are scaling in next-gen domains like AI, drones, & cyber defense, enhancing long-term growth visibility. Despite near-term execution risks, structural tailwinds-indigenization, policy push, & global demand remain intact.

We believe this act as a potential catalyst for increased defense spending, particularly in surveillance, drones, and tactical systems segments where listed Indian players are well-positioned. This aligns with the "Atmanirbhar Bharat" vision, strengthening the case for domestic defense manufacturing.

Key growth drivers of the Indian defense sector

- Rising geopolitical tensions and persistent border challenges with China and Pakistan are driving advanced platforms.
- Consistently increasing Indian defense budget with annual allocations reaching INR 6.2 trillion in FY25.
- Strong push for indigenous manufacturing under the *Make in India* and *Atmanirbhar Bharat* initiatives.
- Defense corridors at Uttar Pradesh and Tamil Nadu.
- Favorable govt. policies to encourage local production.
- Ambitious export target of INR 236 Bn in FY25, with targets set to reach INR 500 Bn by FY29.
- Strategic partnerships and joint ventures with global OEMs.
- And robust order book ensuring future growth visibility

Geopolitical headwinds weigh on DPSU, private sector resilient

The Q4FY25 earnings season for India's defense sector under our coverage companies reflected a mixed performance, with a notable divergence between Defense PSUs and private sector players.

Despite a strong order backlog, HAL reported muted growth during the quarter, while BEL & BDL delivered strong top-line performance. Overall, defense PSUs under our coverage posted subdued operational performance, with aggregate revenue growth limited to 1.8% YoY. On the margin front, HAL and BEL managed to maintain their margins, whereas BDL witnessed a significant contraction. Consequently, overall EBITDA margins for PSUs declined by 101 bps to 34.2%, primarily due to ongoing supply chain disruptions arising from geopolitical conflicts in Israel–Palestine and Russia–Ukraine. These external challenges continue to affect component availability, given India's reliance on key imports from these regions. Net profit declined marginally by 0.2% YoY, with a 52 bps contraction in PAT margins.

In contrast, private sector players, particularly Apollo Micro Systems, delivered significantly stronger results. Cumulative revenue across our covered private companies rose by 11.3% YoY and 78.7% QoQ, while EBITDA surged 38.9% YoY. EBITDA margins expanded by 398 bps YoY, reflecting improved cost controls. However, margin performance varied across companies - DCX reported weak margins, and Centum Electronics posted a net loss during the quarter. Nevertheless, the overall performance highlights the advantage of localized sourcing and a more resilient domestic supply chain among private players.

Key Financials

INR Bn	FY23	FY24	FY25	FY26E	FY27E
Revenue	286.0	322.8	335.4	364.6	408.8
YoY Growth (%)	11.7	12.9	3.9	8.7	12.1
EBITDA	66.8	97.4	96.1	108.1	125.8
EBITDAM (%)	24.8	32.1	31.0	32.1	33.3
Adjusted PAT	58.2	76.2	83.6	91.6	106.3
EPS	87.1	113.7	124.5	137.0	159.0
ROE (%)	27.2	28.9	26.1	24.3	24.3
ROCE (%)	22.8	31.6	25.8	24.4	24.5
PE(x)	58.8	45.0	41.0	37.4	32.2
Price to BV (x)	14.5	11.8	9.8	8.5	7.3

HNAL on the ascent: Strong order book and improving execution;

Despite HNAL's robust order book ~6.1x of FY25 revenue, execution bottlenecks remain a near-term concern. Management has acknowledged these constraints and accordingly moderated its FY26E growth outlook, with a clearer production ramp-up anticipated from FY27E. The recent engine delivery is a step in the right direction, but sustained supply chain reliability and timely integration across platforms are essential to unlocking the full potential of HNAL's mfg. programs.

Factoring in these developments, we revise our FY26E and FY27E revenue growth estimates downward by 12.8% and 13.9%, respectively, and now project HNAL's Revenue, EBITDA, and PAT to grow at a CAGR of 7.5%, 9.0%, and 11.7% over FY24-27E. However, given the improving execution visibility and strong project pipeline, we assign ADD rating and revise our TP to INR 5,570. We also raise our valuation PE multiples from 32x to 35x FY27E EPS, reflecting confidence in HNAL's long-term strategic positioning and the visibility offered by its upcoming programs. Any meaningful improvement in timelines or platform momentum could lead us to reassess our stance positively.

Peer Comparison

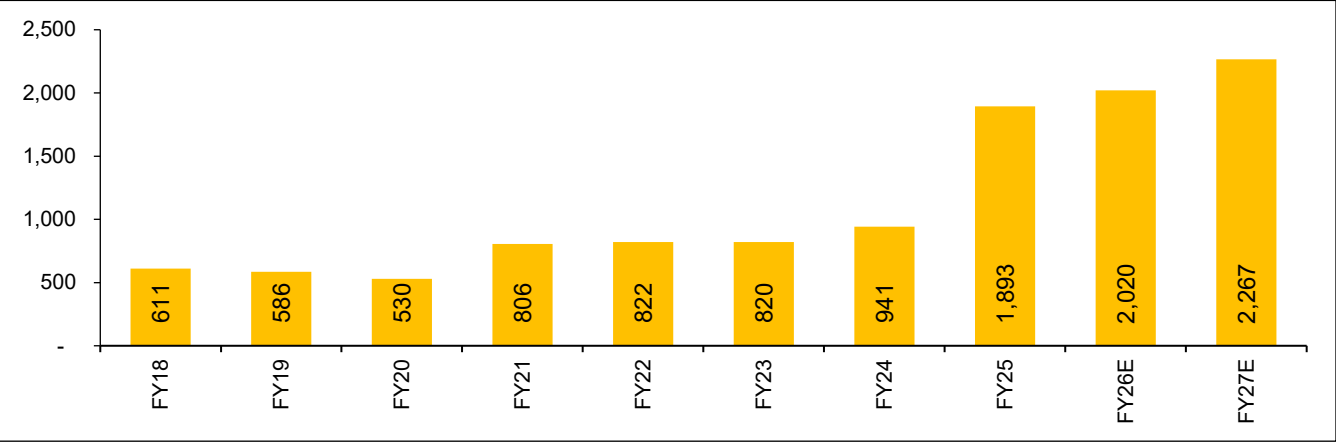
			Revenue growth (%)			EBITDA Margin (%)			EPS (INR)			PE (x)		
Company	CMP	TP (INR)	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Tier-I														
HAL	5097	5570	2.0	8.7	12.2	31.0	32.1	33.3	124.5	137.0	159.0	40.9	37.2	32.1
BDL	1930	1785	41.4	50.0	50.0	14.1	23.0	25.0	15.0	32.6	51.0	128.8	59.2	37.9
BEL	397	420	20.7	18.0	19.0	28.8	28.6	29.0	7.3	8.7	10.5	54.5	45.6	37.8
Tier-II														
Astra Microwave	1175	1050	15.7	22.1	22.5	25.6	25.7	25.9	16.2	20.6	26.2	72.5	57.0	44.8
Data Patterns	3070	2915	36.6	25.0	25.0	38.8	40.0	40.0	39.6	51.8	64.7	77.5	59.3	47.4
Apollo Micro	190	200	51.2	44.9	50.0	23.0	24.0	24.5	1.8	2.8	4.4	105.6	67.9	43.2
Azad Engineering	1674	1865	34.2	36.8	40.0	35.3	36.6	37.0	14.7	22.7	33.9	113.9	73.7	49.4
DCX	312	260	23.9	18.0	18.0	0.4	2.5	3.5	3.5	7.0	8.7	89.1	44.6	35.9
Centum	2335	2050	6.2	18.0	18.0	8.6	10.9	11.9	1.9	45.3	70.7	1,228	51.5	33.0

Source: Company, CEBPL

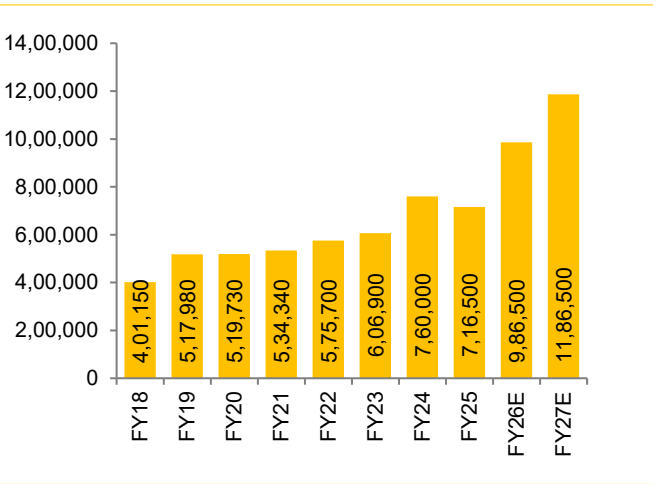
Order Book Trends Across Coverage Universe

Order book positions across our coverage universe remain robust, reflecting healthy demand visibility and sustained momentum in defense procurement. While public sector undertakings continue to anchor large, long-cycle orders backed by government contracts, private players are steadily gaining share through agile execution and participation in high-value, technology-intensive segments. The pipeline remains strong, supported by increased budgetary allocations, policy tailwinds, and the government’s focus on indigenization.

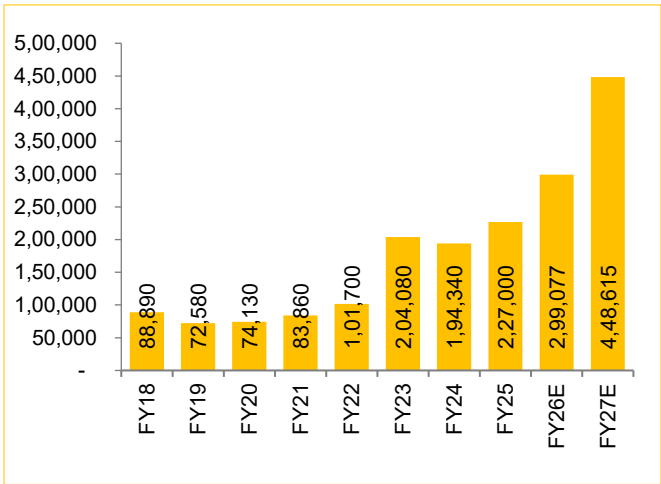
Hindustan Aeronautics order book



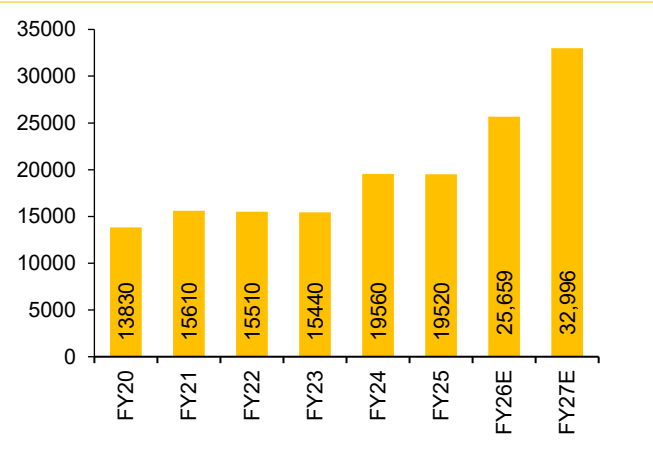
Bharat Electronics order book



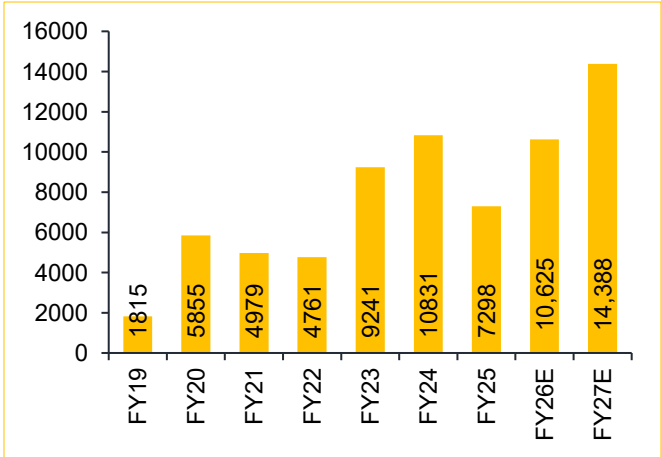
Bharat Dynamics order book



Astra Microwave order book



Data Patterns order book



Source: Company, CEBPL

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be stable over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

\*Large Cap: More Than INR 20,000 Cr Market Cap  
\*Mid & Small Cap: Less Than INR 20,000 Cr Market Cap

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