

Good Q3 but engine woes continue

14 February 2025

Hindustan Aeronautics (HNAL IN) revenue saw a positive surprise in Q3FY25, likely driven by delivery of trainer aircraft and helicopters. The company expects 12 *Tejas Mk1A* aircraft to be delivered by FY26. But our checks with suppliers indicate possible headwinds to this target. Thus, we lower our TP to INR 5,160 on 40x December FY26E P/E, but we retain **Buy** due to robust order visibility of ~INR 1.7tn in FY26 with positive surprises potentially in exports.

Sales surprise in Q3 on higher manufacturing and services contribution: Revenue rose 15% YoY to INR 69.6bn in Q3FY25, 9% higher than our estimates, likely led by delivery of trainer aircraft (*Tejas & HTT-40*) and helicopters (advance light helicopter [ALH] and light utility helicopter [LUH]) along with a rise in repair & overhaul (ROH) services. ROH revenue may have risen in the low double digits while manufacturing may have posted robust double-digit growth. EBITDA margin saw a 40bp YoY increase to 24.2% in Q3. Higher other income up 37% driven by strong order inflows of INR 556bn in 9MFY25 was offset by rise in tax rate to 29.5% in Q3FY25 vs 25% in Q3FY24. Thus, adjusted net profit grew by 13% YoY to INR 14.4bn in Q3FY25.

Tejas deliveries likely by end-FY25: Management states receipt of the GE-404 engines for the *Tejas Mk 1A* fighter aircraft are likely to commence by March 2025. It expects to deliver 12 aircraft in FY26 vs 16 earlier. But our checks at the *Aero India 2025* exhibition with component suppliers for the *Tejas Mk 1A* reveal orders for subsystems from these suppliers likely to be placed in H1FY26. As a result, overall delivery schedule is unchanged, but near-term delivery schedule for a year continues to be clouded with uncertainty.

Orderbook guidance of INR 2.6tn for FY26: Management expects FY26 orderbook at INR 2.5-2.6tn, up from INR 1.3tn as on December 2024. This would be led by two large orders for 97 light combat aircraft (LCA) *Tejas Mk 1A* in addition to 83 already ordered, and 156 light combat helicopters (LCH) *Prachand* together worth INR 1.3tn, which are likely to materialize in the next 3-6 months. Additionally, orders worth INR 350bn are set to accrue for *Su-30MKI* upgrade, Indian Multi-Role Helicopter (IMRH) design & development, and ROH orders, taking the total expected inflows to ~INR 1.7tn for FY26.

Reiterate Buy with a lower TP of INR 5,160: We reduce our EPS by 6% each in FY25E and FY26E to factor in further delay in delivery of *Tejas Mk 1A* aircraft. We lower our TP to INR 5,160 from INR 5,465 on 40x (from 42x) December FY26E P/E due to delayed delivery. However, we retain **Buy**, due to robust order visibility led by rising share of indigenization with unexplored exports opportunity in the aircraft & helicopter industry, which is positive for HNAL in the long term. **We expect an earnings CAGR of 14% during FY24-27E with a 23% ROE during FY25-27E.**

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	261,578	298,321	315,817	356,576	416,579
YoY (%)	12.1	14.0	5.9	12.9	16.8
EBITDA (INR mn)	67,608	81,936	78,766	89,428	104,080
EBITDA margin (%)	25.8	27.5	24.9	25.1	25.0
Adj PAT (INR mn)	49,516	60,735	65,436	76,864	89,396
YoY (%)	37.4	22.7	7.7	17.5	16.3
Fully DEPS (INR)	74.0	90.8	97.8	114.9	133.7
RoE (%)	23.1	23.0	21.5	23.1	23.7
RoCE (%)	24.3	24.3	22.7	24.2	24.7
P/E (x)	18.4	36.6	37.7	32.1	27.6
EV/EBITDA (x)	10.5	23.9	27.8	23.5	20.5

Note: Pricing as on 13 February 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 5,160**

Upside: **41%**

CMP: **INR 3,660**

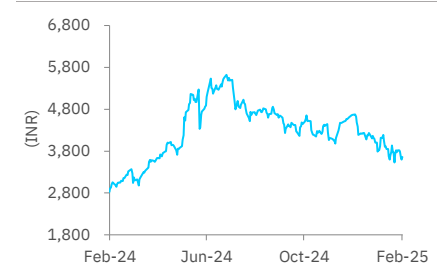
As on 13 February 2025

Key data

Bloomberg	HNAL IN
Reuters Code	HIAE.NS
Shares outstanding (mn)	669
Market cap (INR bn/USD mn)	2,448/28,172
Enterprise Value (INR bn/USD mn)	2,159/24,839
Avg daily volume 3M (INR mn/USD mn)	6,892/79
52 week high/low	5,675/2,825
Free float (%)	28

Note: as on 13 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	71.6	71.6	71.6	71.6
% Pledged	0.0	0.0	0.0	0.0
FII	12.4	11.7	11.8	12.3
DII	9.7	8.8	8.5	8.2
Others	6.3	7.9	8.1	7.9

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(2.2)	(4.6)	5.9
Hindustan Aeronautics	(10.0)	(22.2)	25.2
NSE Midcap	(5.4)	(10.5)	6.4
NSE Smallcap	(8.5)	(12.2)	2.1

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	261,578	298,321	315,817	356,576	416,579
EBITDA	67,608	81,936	78,766	89,428	104,080
Margin (%)	25.8	27.5	24.9	25.1	25.0
Add:- Non operating Income	11,007	18,966	22,759	28,395	31,234
Depreciation	11,995	14,072	14,322	15,443	16,285
EBIT	66,619	86,830	87,203	102,379	119,029
Less:- Interest Expenses	580	321	289	260	234
PBT	74,801	101,984	86,914	102,119	118,795
Less :- Taxes	16,552	26,039	21,729	25,530	29,699
PAT	58,278	76,210	65,436	76,864	89,396
Adjusted PAT	49,516	60,735	65,436	76,864	89,396
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	3,344	3,344	3,344	3,344	3,344
Reserves	232,378	288,038	313,161	345,682	402,828
Net Worth	235,759	291,418	316,541	349,062	406,208
Loans	0	0	125	125	125
Net deferred Tax Liability	(11,257)	(14,543)	(14,543)	(14,543)	(14,543)
Capital Employed	224,502	276,875	302,123	334,644	391,790
Gross Block	158,570	171,679	197,614	211,814	225,014
Less:- Accumulated Depreciation	90,226	104,311	118,632	134,075	150,360
Add:- Capital work in progress	18,850	24,934	13,000	12,000	11,000
Net Fixed Assets	87,194	92,303	91,981	89,738	85,653
Investments	14,579	15,914	15,914	15,914	15,914
Net Working Capital	(80,438)	(95,658)	(79,283)	(129,447)	(41,585)
Cash & Bank Balance	203,166	264,316	273,512	358,439	331,808
Application of Funds	224,502	276,875	302,123	334,644	391,790
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash Profit adjusted for non-cash items	111,339	133,173	101,525	117,822	135,314
Add/Less : Working Capital Changes	4,515	(31,251)	(16,374)	50,164	(87,863)
Operating Cash Flow before Tax	115,854	101,922	85,151	167,986	47,451
Tax	(27,557)	(19,693)	(21,729)	(25,530)	(29,699)
Operating Cash Flow	88,297	82,228	63,422	142,456	17,753
Less:- Capex	(17,762)	(17,472)	(14,000)	(13,200)	(12,200)
Free Cash Flow	70,536	64,756	49,422	129,256	5,553
Investing Cash Flow	(39,519)	(46,629)	-	-	-
CF from Fin. Activity	(17,313)	(19,989)	(40,476)	(44,604)	(32,484)
Net Change in Cash	13,704	(1,861)	8,946	84,652	(26,931)
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue growth	12.1	14.0	5.9	12.9	16.8
EBITDA growth	25.5	21.2	(3.9)	13.5	16.4
PAT growth	37.4	22.7	7.7	17.5	16.3
EBITDA margin	25.8	27.5	24.9	25.1	25.0
Net margin	18.9	20.4	20.7	21.6	21.5
Per Share data (INR)					
Diluted EPS	74.0	90.8	97.8	114.9	133.7
DPS	40.0	22.0	50.0	55.0	40.0
Book value per share	352.5	435.7	473.3	521.9	607.3
Payout (incl. Div. Tax) (%)	54.0	24.2	51.1	47.9	29.9
Dividend yield (%)	2.9	0.7	1.4	1.5	1.1
Valuation (x)					
P/E	18.4	36.6	37.7	32.1	27.6
EV/EBITDA	10.5	23.9	27.8	23.5	20.5
EV/Sales	2.7	6.6	6.9	5.9	5.1
Price/Book value	3.9	7.6	7.8	7.1	6.1
Return and Liquidity Ratios					
Net debt/Equity (x)	(0.9)	(0.9)	(0.9)	(1.0)	(0.8)
ROE (%)	23.1	23.0	21.5	23.1	23.7
ROCE (%)	24.3	24.3	22.7	24.2	24.7

We expect a revenue CAGR of 11% during FY24-27E

EBITDA margin contraction of 250bp during FY24-27E

Note: Pricing as on 13 February 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Revenue (net of excise)	69,573	60,613	14.8	59,763	16.4	63,761	9.1
EBITDA	16,825	14,432	16.6	16,400	2.6	16,622	1.2
EBITDA Margin (%)	24	24	37.3	27	(325.8)	26	(7.2)
Other income	6,314	4,600	37.3	5,424	16.4	5,600	12.8
Interest income	1	4	(77.8)	0	300.0	0	300.0
Depreciation	2,771	2,122	30.6	1,776	56.0	3,500	(20.8)
PBT	20,422	16,894	20.9	20,227	1.0	18,767	8.8
Tax	6,024	4,279	40.8	5,122	17.6	4,786	25.9
Tax Rate (%)	29.5	25.3	416.8	25.3	417.4	25.5	15.7
Reported PAT	14,398	12,615	14.1	15,105	(4.7)	13,981	3.0
Adj. PAT	14,398	12,694	13.4	15,046	(4.3)	13,981	3.0
NPM (%)	19	19	(2.5)	23	(17.8)	20	(5.9)
EPS (INR)	22	19	13.4	22	(4.3)	21	3.0

Source: Company, Elara Securities Estimate

Exhibit 1: Valuation

(INR)	
EPS – FY25E	97.8
EPS – FY26E	114.9
Five-year average P/E (x)	30.5
Target multiple (x)	40.0
September 2026E EPS	129
Target price	5,160

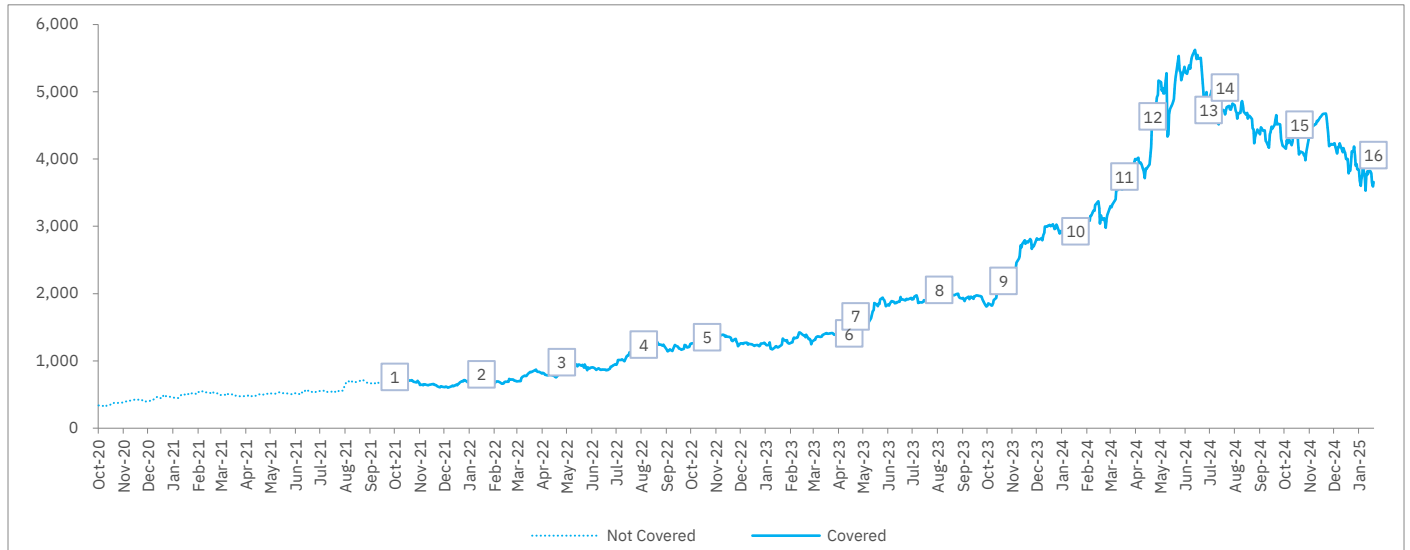
Source: Elara Securities Estimate

Exhibit 2: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	327,909	374,862	425,859	315,817	356,576	416,579	(3.7)	(4.9)	(2.2)
EBITDA	85,141	96,892	109,490	78,766	89,428	104,080	(7.5)	(7.7)	(4.9)
EBITDA margin (%)	26.0	25.8	25.7	24.9	25.1	25.0	(102.5)	(76.8)	(72.6)
PAT	69,364	81,575	92,477	65,436	76,864	89,396	(5.7)	(5.8)	(3.3)
EPS (INR)	103.7	122.0	138.3	97.8	114.9	133.7	(5.7)	(5.8)	(3.3)
TP (INR)			5,465			5,160			(5.6)

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price	
9	15-Nov-2023	Buy	INR 2,500	INR 2,091
10	12-Feb-2024	Accumulate	INR 2,975	INR 2,846
11	12-Apr-2024	Accumulate	INR 4,100	INR 3,638
12	17-May-2024	Buy	INR 5,590	INR 4,532
13	25-Jul-2024	Accumulate	INR 5,590	INR 4,830
14	14-Aug-2024	Buy	INR 5,730	INR 4,662
15	14-Nov-2024	Buy	INR 5,465	INR 4,087
16	13-Feb-2025	Buy	INR 5,160	INR 3,660

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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