

BHE - Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	274.8	319.2	378.2
EBITDA	80.2	92.9	108.2
Adj PAT	60.5	70.2	82.5
EPS (INR)	8.3	9.6	11.3
EPS Gr. (%)	14.4	16.1	17.4
BV/Sh (INR)	32.5	41.5	52.0
Ratios			
RoE (%)	25.5	23.2	21.7
RoCE (%)	27.8	26.0	24.2
Payout (%)	6.6	6.6	6.6
Valuations			
P/E (x)	50.6	43.6	37.1
P/BV (x)	12.9	10.1	8.1
EV/EBITDA (x)	37.2	31.4	26.5
Div Yield (%)	0.1	0.2	0.2

HAL - Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	330.9	376.5	472.9
EBITDA	97.7	110.7	136.6
Adj PAT	91.2	100.2	120.1
EPS (INR)	136.3	149.9	179.6
EPS Gr. (%)	9.1	10.0	19.8
BV/Sh (INR)	613.7	718.6	853.2
Ratios			
RoE (%)	22.2	20.9	21.1
RoCE (%)	22.7	21.3	21.4
Payout (%)	36.7	30.0	25.1
Valuations			
P/E (x)	32.7	29.8	24.8
P/BV (x)	7.3	6.2	5.2
EV/EBITDA (x)	25.8	22.4	17.4
Div Yield (%)	1.2	1.1	1.1

BDL - Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	24.4	42.3	61.2
EBITDA	2.2	6.3	9.8
Adj PAT	4.2	6.7	9.8
EPS (INR)	11.5	18.2	26.7
EPS Gr. (%)	(23.5)	58.8	46.5
BV/Sh (INR)	115.7	127.0	145.6
Ratios			
RoE (%)	9.9	14.3	18.3
RoCE (%)	10.2	14.7	18.7
Payout (%)	45.3	38.2	30.0
Valuations			
P/E (x)	114.2	71.9	49.1
P/BV (x)	11.3	10.3	9.0
EV/EBITDA (x)	193.9	66.9	41.6
Div Yield (%)	0.4	0.6	0.7

Defense replenishment and upgrades to ramp up

With a resolution of the West Asia crisis in sight, the focus would now shift toward the replenishment of ammunition, missiles, and critical inventories, alongside the acquisition and upgrade of various platforms. This is likely to open up export markets for defense players, apart from the domestic defense ordering. Focus would also be more on drones, anti-drones, electronic warfare, air defense control systems and active protection systems on both domestic and international markets. We expect these orders, along with large platform orders, to start materializing during FY27. Domestically, defense production moved up 16% YoY to INR1.78t for FY26 which is better than estimates. Bid submission has also concluded for MALE drone project worth INR300b inviting both PSUs and private players. In the near term, we would watch out for the easing of supply chain issues and the finalization of large orders for select players. We maintain our positive stance on the defense sector and Bharat Electronics remains our top buy in this space.

FY26 performance

Order inflows during the year remained healthy across the sector. While execution was broadly in line with our estimates, stronger-than-expected EBITDA margins across several companies led to PAT outperforming expectations. Within our coverage universe, BHE, HAL and ASTM delivered results ahead of estimates, whereas ZEN was impacted by a weaker opening order book for FY26 and BDL faced execution challenges due to delays in component supplies from external vendors, coupled with a higher share of bought-out components. NWC of private players remains relatively higher, while for DPSUs, it continues to be at comfortable levels. BHE, however, witnessed an increase in NWC due to lower customer advances and higher receivables. With a healthy order book position and the number of large contracts expected to be awarded over the near-to-medium term, we expect FY27 and FY28 growth to be driven by higher execution levels.

Key orders announced in FY26

Key defense contracts finalized during FY26 included an ~INR627b order awarded to HAL for the supply of 97 additional LCA Mk1A fighters. BHE secured total orders worth ~INR300b in FY26, including contracts for mountain radars, Atulya air defense fire control radars, ground-based mobile electronic systems (GBMES), and an avionics package for the LCA program from HAL. In addition, Solar Industries' defense order inflows stood at ~INR40b, of which exports form ~70%. BDL secured multiple missile-related contracts aggregating ~INR55b, reflecting continued momentum in indigenous missile procurement.

Prospect pipeline remains strong

Management commentaries indicate a strong pipeline ahead for the defense sector players. **BHE** highlighted opportunities such as QRSAM, next-generation corvette (NGC), Shatrughat and Samaghat EW systems, P75I submarine, Hammer, Shakti Phase-4, Uttam radar, and naval multi-function radar (MFR). **HAL** boasts a strong near-term pipeline of ~INR900b over the next two years, which includes orders for 143 ALH helicopters, Sukhoi upgrades, and Dornier upgrade. **Shipyard** companies are expecting orders such as NGCs, P-17B frigate, P75I submarines, multi-purpose

ASTM- Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	11.6	14.1	16.8
EBITDA	3.3	3.8	4.5
Adj PAT	1.9	2.5	3.3
EPS (INR)	20.3	26.3	34.6
EPS Gr. (%)	25.7	29.6	31.2
BV/Sh (INR)	138.5	164.8	199.4
Ratios			
RoE (%)	16.0	17.4	19.0
RoCE (%)	14.5	15.2	16.4
Valuations			
P/E (x)	77.5	59.8	45.6
P/BV (x)	11.4	9.6	7.9
EV/EBITDA (x)	44.9	39.3	32.6

ZEN - Financials & Valuations (INR b)

Y/E MARCH	FY26	FY27E	FY28E
Sales	4.2	9.9	13.8
EBITDA	1.4	3.6	5.0
Adj PAT	1.5	3.0	4.2
EPS (INR)	16.2	33.6	47.0
EPS Gr. (%)	-44.5	107.8	40.1
BV/Sh (INR)	201.8	235.4	282.4
Ratios			
RoE (%)	8.3	15.4	18.2
RoCE (%)	8.3	15.5	18.3
Valuations			
P/E (x)	116.8	56.2	40.1
P/BV (x)	9.4	8.0	6.7
EV/EBITDA (x)	123.6	45.0	31.7

vessels, mine-countermeasure vessels, landing platform docks, etc. Private defense players are expecting a ramp-up in inflows in FY27, with ZEN having a strong bidding pipeline of ~INR15b with additional opportunities through single-vendor and nomination-based orders. ASTM expects large-sized orders, including QRSAM, Uttam radars, Su-30 upgrades, and BHE-linked platforms such as Himshakti. Data Patterns highlighted a strong and diversified order pipeline across multiple defense platforms, with visibility on repeat single-vendor opportunities worth ~INR19b over the medium term and ~INR15-20b of inflows targeted in FY27.

Update on large orders

- **QRSAM:** BHE expects to receive a QRSAM order by Jun-Jul'26.
- **Next-generation corvettes (NGCs):** The deal is on the verge of clearance from the Cabinet Committee on Security (CCS). GRSE was declared as L1 and will manufacture five out of the total eight corvettes. The company indicated its share of the order to be ~INR330b.
- **P75I submarine order:** The Union Finance Ministry has approved an ~INR700b deal for the construction of six advanced conventional submarines, paving the way for final clearance by the CCS. The submarine will be developed by MDL in partnership with Germany's Thyssenkrupp, aiming for 45-60% indigenization.
- **AMCA program:** MoD has shortlisted Tata Advanced Systems, L&T and Bharat Forge to build prototypes, and the first prototype rollout is targeted to be delivered in a year's time with maiden flight expected around 2028-29.
- **114 Rafale fighter jets:** India has finalized the Letter of Request (LoR) to France for the INR3.3t deal for 114 Rafale fighter jets. 90 jets are planned to be manufactured in India through partnership between Dassault Aviation and an Indian firm, while the remaining 24 will be delivered in fly-away condition from France.
- **Astra Mk1 missiles:** BDL has issued two parallel tenders for critical components linked to the Astra Mk1 BVRAAM project. The tender relates to procurement of PT Blanks intended for fabrication and structural casings of the missile's motor.
- **Landing platform docks:** AoN has been accorded and RFP is expected within CY26, with the order size to be in the range of ~INR350b-400b.

Exports to improve over the long term

Overall, India's defense exports surged ~63% YoY to INR384b in FY26. The share of DPSUs in total defense exports improved significantly to 55%, while historically, it was largely dominated by the private sector for the supply of sub-components. India now supplies to over 80 countries, with products ranging from BrahMos missiles and Akash air-defense systems to naval vessels, Swathi radars and artillery. Most companies have set targets to further expand their export share in the coming years; however, it may take some time to show meaningful results. With an improved export share and increased indigenized content, we expect margins to remain at healthy levels for the defense players.

Moving from build-to-print (BTP) to design and subsystem IP-led solution

India's defense partnerships have increasingly moved beyond simple imports toward deep manufacturing, technology transfer and co-development arrangements. Key examples include: 1) collaboration between **GE and HNAL** for local production and technology transfer for F414 fighter engines that will power Tejas Mk2 programs, 2) **Safran's co-development model** with DRDO for a new 120kN fighter jet engine for AMCA, including transfer of critical hot-section technologies that India historically struggled to access, and 3) **Airbus-Tata Advanced Systems** partnership under which India's first domestically manufactured C-295 transport aircraft is now nearing flight testing in Gujarat. India is also seeing growing collaborations in missiles, guided munitions, UAVs and electronics, including **Safran's JV with BHE** for precision-guided weapons and expanding indigenous-private participation in programs like Pinaka, loyal wingman drones and stealth UAVs. Further, India has announced defense cooperation with multiple strategic partners, including the US, UAE, Italy, France, Israel and a few other Gulf nations. Over the next decade, Indian companies could progressively move up the value chain from build-to-print manufacturing toward actual design ownership, subsystem IP and export participation in global defense programs.

Valuations and recommendations

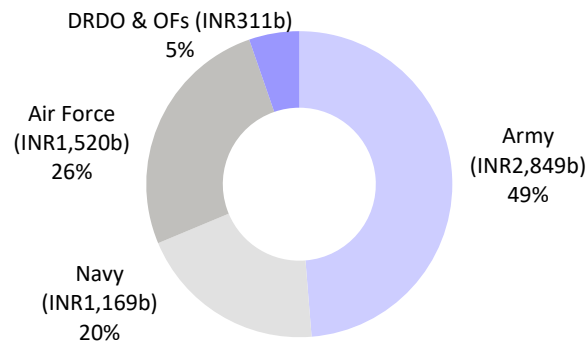
We remain positive on the defense sector and BHE remains our preferred pick.

- **BHE** is currently trading at 43.6x/37.1x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR510, based on the 45x two-year forward earnings.
- **HAL** is currently trading at 29.8x/24.8x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR5,500, implying 30x on two-year forward earnings.
- **BDL** is currently trading at 71.9x/49.1x FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,150, based on the 42x two-year forward earnings.
- **AMPL** is currently trading at 59.8x/45.6x FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR1,580, based on the 40x two-year forward earnings.
- **ZEN** is currently trading at 56.2x/40.1x FY27E/FY28E/FY29E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,400, based on the 30x two-year forward earnings.

Overall defense spending planned

Overall defense spending (revenue + capital) continues to be led by the Indian Army at 49%; however, it has come down from its historical high of 57% in FY19. The biggest beneficiary of the Army's reduced share is the Navy, which now accounts for ~20% (up from 15% in FY19).

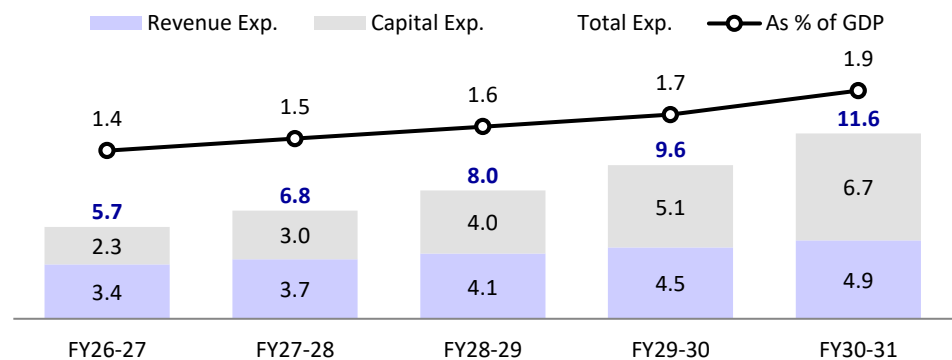
Exhibit 1: Share of defense services (FY26-27)



Source: SIPRI, MOFSL

The Finance Commission acknowledged that there is a need to increase overall spending in the defense sector considering the recent geopolitical situations and hostility at Indian borders. The enhanced allocation should be aimed at capacity building, and modernization on the capex side, rather than the revenue side. Accordingly, the Commission recommended a much higher 30% YoY increase in capex, which it believes will support the armed forces in achieving multi-domain operational capabilities.

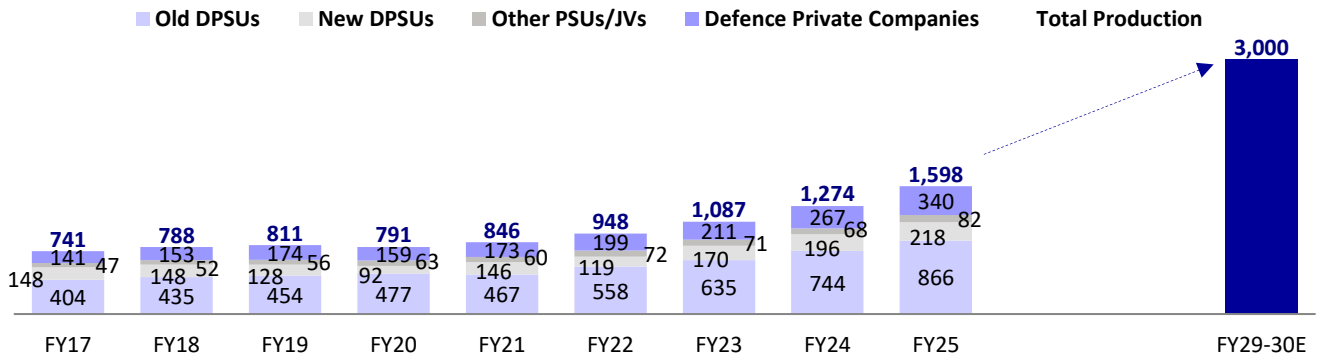
Exhibit 2: 16th Finance Commission projections for defense services (INR t)



Source: SIPRI, MOFSL

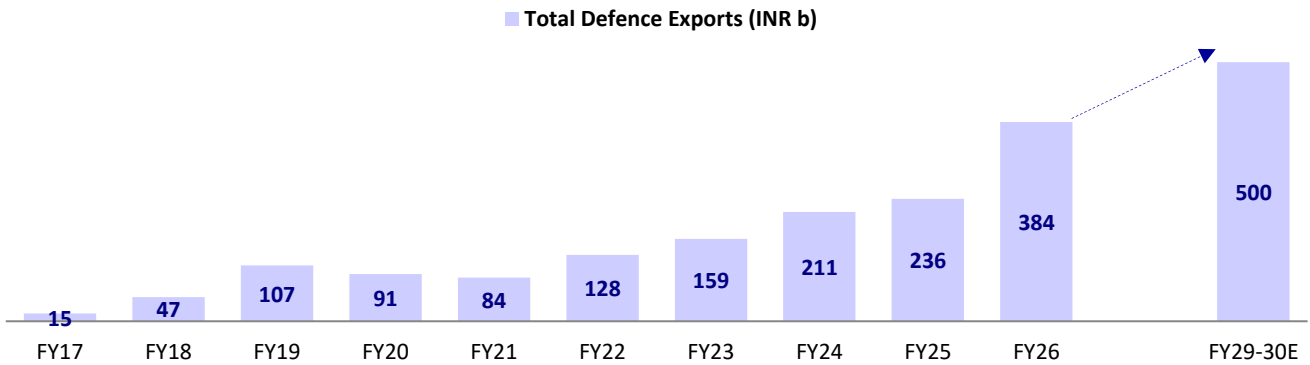
Defense production and exports to double by FY29

Exhibit 3: Total defense production targeted to reach INR3t by FY29-30



Source: DDP, MoD, MOFSL

Exhibit 4: Total defense exports are targeted to double from FY25 levels, reaching INR500b by FY29-30



Source: DDP, MOFSL

Exhibit 5: Government's defense capex budget utilization over the years: If defense capex grows at a higher rate, the share of procurement from domestic players will increase too

(INR b)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E
Budget	ACT	ACT	ACT	ACT	ACT	ACT	ACT	ACT	ACT	RE	BE
Defence capital outlay budget	864	904	952	1,111	1,343	1,380	1,429	1,543	1,598	1,865	2,193
YoY %		5	5	17	21	3	4	8	4	17	15
Domestic Defence production	741	788	811	791	846	949	1,087	1,274	1,506	1,780	2,026
YoY %		6	3	(3)	7	12	15	17	18	18	14
Defence PSUs											
HAL	179	185	200	214	229	246	269	298	310	331	377
BEL	83	100	118	126	138	150	173	202	237	275	319
BDL	49	46	31	31	19	28	25	24	33	24	42
MDL	35	45	46	49	40	57	78	95	133	130	150
Cochin Shipyard	21	24	30	34	28	32	23	36	46	50	59
Garden Reach	9	13	14	14	11	18	26	36	50	70	88
BEML	25	32	35	30	36	43	39	41	41	44	52
Other PSUs and JVs											
Ordnance Factories	148	148	128	92	146	119	170	196	218	251	301
Private companies	141	154	174	159	173	199	211	267	340	420	525
Foreign procurement	305	334	430	446	507	483	391	445	452	560	629
Share of foreign procurement in overall capex budget %	35	37	45	40	38	35	27	29	28	30	29
Exports	15	47	107	91	84	128	159	211	236	384	461
YoY%		208	129	(15)	(7)	52	24	32	12	63	20

Source: Industry, MOFSL

Near-to-long term pipeline strong for defense players

Exhibit 6: Strong prospect pipeline for Indian defense players across platforms

Companies	Management Comments
Astra Microwave	❖ Defense pipeline remains strong. The business continues to scale across radar, electronic warfare, missile, and strategic electronics programs, with upcoming growth driven by large indigenous opportunities such as Uttam radar, QRSAM, Su-30 upgrades, and BEL-linked platforms like Himshakti. Rising indigenization and increasing defense procurement are expected to support medium-term growth.
Bharat Electronics	❖ BHE expects a strong pipeline of large orders over FY27 and beyond, driven by ongoing and new opportunities including NGC, Shatrughat and Samaghat EW solutions, P75I, Hammer program, and Shakti Phase 4 and MFR radar for naval ships, with some spill-over into the next year. It also indicated that post QRSAM, additional large projects worth INR200b-250b could emerge over the next 2-3 years.
Hindustan Aeronautics	❖ HAL expects a strong near-term order pipeline of ~INR900b over the next two years, led by 143 ALH helicopter orders, Sukhoi and Dornier upgrade programs, with ALH expected to be the largest contributor. Future indigenous aircraft program approvals could further strengthen long-term visibility.
Zen Technologies	❖ The company has a strong bidding pipeline of around INR15b, with additional opportunities through single-vendor and nomination-based orders. Near-term order inflows are expected to pick up from 1HFY27.
Garden Reach	❖ Management highlighted a strong defense shipbuilding outlook, with opportunities across P-17 Bravo, mine countermeasure vessels, and landing platform docks, excluding the NGC project. The company noted multiple live tenders, upcoming RFPs over the next three months, and capacity expansion from 28 to 32 platforms by end-CY26.
Solar Industries	❖ Management highlighted a positive outlook for domestic explosives and defense businesses, with domestic demand expected to improve after a weak FY26 impacted by lower coal overburden removal. The company also indicated strong defense ordering activity, including discussions and negotiations for additional Pinaka-related orders and other advanced defense products.

Source: Company, MOFSL

Potential exports from India and strategies to increase exports share

Exhibit 7: As per management commentaries, focus remains on improving exports year-on-year

Companies	Management Comments
Astra Microwave	❖ The export business is shifting from low-margin offset manufacturing toward higher value-added co-developed RF systems, SDR programs, and proprietary subsystem exports. The company is increasingly focusing on Astra-branded strategic electronics and defense solutions, while leveraging its MMIC and RF design capabilities to expand globally beyond internal and JV-led requirements.
Bharat Electronics	❖ BHE is seeing improving export traction, with an export order book of ~USD96m and strong interest in SDRs, satellite communication systems, and customized C4I solutions following recent geopolitical developments. Exports currently contribute ~4-5% of revenue and are targeted to exceed 10% over the next 4-5 years.
Zen Technologies	❖ Management highlighted strong export demand across anti-drone systems, simulators, and naval training solutions, with the company expecting significant export orders going forward. The company noted rising global demand for anti-drone systems following recent conflicts, while naval simulator enquiries have increased amid greater focus on maritime security. Management also stated that its AI-enabled anti-drone systems with 70 MHz to 12 GHz jamming capabilities are receiving positive response in international markets.
Garden Reach	❖ Management highlighted a positive export outlook, supported by growing interest from European commercial ship owners, ongoing execution of 12 multipurpose vessels for a German client, and export bridge deliveries. The company added that discussions with multiple European clients are ongoing and expects further commercial vessel export orders.
Solar Industries	❖ Management highlighted strong export demand across Africa, Southeast Asia, and Australia, supported by geographic expansion and new plant additions. The company expects continued export growth, aided by improving mining activity, rising commodity prices, and expansion into new markets such as Sierra Leone and Australia.

Source: Company

Margins to improve as share of indigenous content increases

Exhibit 8: As per management commentaries, margins to sustain or improve year-on-year

Companies	Management Comments
Astra Microwave	❖ Management indicated that the company is focusing only on orders with higher value addition, which has supported the margin profile over the last couple of years. At the same time, it has cautioned that margins will continue to vary with the order mix.
Bharat Electronics	❖ Management guided EBIDTA margins to be more than 28% for FY27, stating indigenization as the key driver of margin expansion across the defense ecosystem in recent years.
Hindustan Aeronautics	❖ The company expects EBIDTA margin to be around 30-31%.
Zen Technologies	❖ Management expects EBIDTA margin/PAT margin to be ~35%/25%, while margins of subsidiaries are expected to be around 30% for ARI and around mid-20% for UTS.
Garden Reach	❖ Management is comfortable sustaining current margin levels going forward.
Solar Industries	❖ Management indicated that EBIDTA margins should be maintained at current levels, supported by the improving mix from defense and international business.

Source: Company

Net working capital position of defense players

NWC position of private players remains relatively higher, while for DPSUs, it continues to be at comfortable levels. **BHE**, however, witnessed an increase in NWC due to lower customer advances and higher receivables. While **HAL and BDL** reported an increase in inventory levels due to delayed deliveries, an increase in other current liabilities supported improvement in working capital positions. Among private defense players, improved inventory levels and receivables led to better NWC position for **AMPL** and **Data Pattern**, and both companies expect it to remain at the current healthy levels going forward. **ZEN's** NWC position seems optically deteriorated due to the reclassification of a large portion of bank balances as other current financial assets.

Exhibit 9: NWC days are usually higher for private defense players vs. DPSUs

Peer comparison	AMPL			Zen Tech			BEL			HAL			BDL			Data Pattern		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
NWC Days																		
Inventory	207	214	193	113	20	72	134	140	134	162	255	340	305	289	691	187	164	108
Trade receivables	203	273	218	143	148	113	133	140	171	202	242	256	48	90	63	280	307	287
Loans	-	-	-	133	330	914	0	0	0	0	0	0	1	1	1	-	-	-
Oth. Curr. assets	43	28	29	1	1	6	152	112	88	118	150	204	439	312	482	141	124	103
Trade payables	34	27	36	217	51	91	373	271	222	42	60	49	123	164	424	35	43	30
Provisions	69	80	77	3	1	3	30	25	26	112	121	105	62	55	59	10	9	9
Oth. Curr. Liab.	6	7	8	-	-	-	13	22	22	445	658	854	848	624	1,015	213	107	30
Net W/C days	344	401	319	171	446	1,012	3	74	123	-117	-192	-207	-240	-152	-260	350	437	430

Source: Company, MOFSL

Note: ZEN's NWC increased mainly due to reclassifications done during the year

Valuation and view

- BHE is currently trading at 42.4x/36.1x FY27E/FY28E EPS. We maintain our estimates and reiterate our **BUY** rating on the stock with an unchanged TP of INR510, based on the 45x two-year forward earnings.
- HAL is currently trading at 28.4x/23.7x FY27E/FY28E EPS. We maintain our estimates and reiterate our **BUY** rating on the stock with an unchanged TP of INR5,500, implying 30x on two-year forward earnings.
- BDL is currently trading at 67.9x/46.4x FY27E/FY28E/FY29E EPS. We maintain our estimates and reiterate our **Neutral** rating on the stock with an unchanged TP of INR1,150, based on the 42x two-year forward earnings.
- AMPL is currently trading at 56.2x/42.8x FY27E/FY28E/FY29E EPS. We maintain our estimates and reiterate our **BUY** rating on the stock with an unchanged TP of INR1,580, based on the 40x two-year forward earnings.
- ZEN is currently trading at 55.3x/39.4x FY27E/FY28E/FY29E EPS. We maintain our estimates and reiterate our **Neutral** rating on the stock with an unchanged TP of INR1,400, based on the 30x two-year forward earnings.

Exhibit 10: Relative valuations of domestic defense players

Companies	CMP		EPS			P/E (X)			FY26-28 CAGR (%)			ROE (%)		
	(INR)	(INR b)	FY26	FY27E	FY28E	FY26	FY27E	FY28E	Rev	EBITDA	PAT	FY26	FY27E	FY28E
Bharat Electronics	419	3,063	8.3	9.6	11.3	50.6	43.6	37.1	17.3	16.2	16.8	25.5	23.2	21.7
Hindustan Aeronautics	4,460	2,983	136.3	149.9	179.6	32.7	29.8	24.8	19.6	18.3	14.8	22.2	20.9	21.1
Bharat Dynamics	1,310	480	11.5	18.2	26.7	114.2	71.9	49.1	58.3	109.5	52.5	9.9	14.3	18.3
Zen Technologies	1,887	170	16.2	33.6	47.0	116.8	56.2	40.1	80.2	91.8	70.6	8.3	15.4	18.2
Astra Microwave	1,575	150	20.3	26.3	34.6	77.5	59.8	45.6	20.4	16.7	30.4	16.0	17.4	19.0
Data Patterns	4,770	267	47.9	62.9	80.8	99.5	75.9	59.0	25.3	23.2	29.8	16.5	18.4	19.6
MTAR	8,319	256	31.5	73.4	132.3	264.2	113.3	62.9	66.9	86.2	105.0	12.5	24.1	32.5
Solar Industries	17,457	1,580	185.4	322.6	383.3	94.2	54.1	45.5	43.0	46.9	25.6	31.5	29.5	28.3
PTC Industries	17,759	266	67.8	456.8	786.2	262.1	38.9	22.6	148.6	244.0	240.6	7.0	34.5	45.0
Azad Engineering	2,164	140	20.6	36.5	51.2	105.2	59.2	42.2	55.6	54.3	69.8	9.1	12.8	15.2
Mazagon Dock	2,552	1,029	63.9	77.6	84.0	39.9	32.9	30.4	21.4	20.3	14.7	28.8	24.4	21.7
Garden Reach	2,818	323	65.3	89.8	69.1	43.2	31.4	40.8	1.7	-12.7	2.9	31.8	26.3	17.2
Cochin Shipyard	1,500	395	27.2	42.0	39.3	55.1	35.7	38.2	25.7	37.5	20.1	12.5	16.1	14.1

Source: Company, Bloomberg, MOFSL

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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