

# Hindustan Aeronautics Ltd. (HNAL)

GE Engines Delivery for Tejas Mark- 1A : Sentimentally Positive; Watch for Catalysts Ahead

**BUY**

CMP: INR 4,177 | Target Price: INR 5,000

(Maintained)

### Delivery of First GE F404 - IN20 Engine for Tejas Mark- 1A is Sentimentally Positive

Recently, GE Aerospace successfully delivered the first F404-IN20 engine to HNAL, marking the commencement of a contract signed in August 2021 for 99 engines. With this milestone, HNAL is set to deliver 12 Tejas Mark-1A fighter aircraft this calendar year, with an annual production rate of 24 aircraft expected from next year onward. **This positive development is likely to bolster investor confidence in the near to medium term.** Additionally, the company may soon secure an additional order for 97 Tejas Mark-1A aircraft.

### However, GE F- 414 Engine for Tejas Mark 2 & AMCA Program Has Encountered Delays

The Tejas Mark 2, which depends on the F414 engine's 98 kN thrust, is scheduled for flight testing in 2026, with production slated for the late 2020s. Similarly, the AMCA Mark 1, powered by the F414, and the more powerful 110 kN engine planned and AMCA Mark 2, is slated for late 2020s. Any delay, impacts India's ability to compete with China's advanced fighter fleet, particularly the J-20, and potentially weakening its strategic deterrence capabilities.

The GE- HNAL agreement for an 80% Transfer of Technology (ToT) on the F- 414 engine has encountered delays owing to technical discussions and government reviews in both India and the US. The deal involves critical technologies like single-crystal turbine blades, advanced coatings, and laser drilling, aimed at boosting India's domestic jet engine manufacturing capabilities. However, complications around technology sharing, intellectual property rights, and manufacturing processes, along with required approval from the US government under ITAR (International Traffic in Arms Regulations), have slowed progress. **The finalization of these negotiations, particularly with the Indian government and international partners, could further drive positive market sentiment.**

### Our View:

As of Dec 2024, HNAL had a robust order book of ~INR 1,330 Bn (~4.15x TTM revenue) and we expect INR 2,500 Bn order book by FY26, owing to its involvement in major defense programs such as Tejas Mark 2, AMCA, TEDBF, LUH, LCH Prachand, and IMRH. While LUH, LCH, and IMRH (details below) are progressing as planned, Tejas Mark 2, AMCA, and TEDBF have faced delays. Our investment view remains unchanged (**BUY with the target price of INR 5,000**); as in [our last report dated Feb 13, 2024](#) with Tejas Mark 2 engine agreement being the catalyst to watch out in the coming months. We have not considered appx. order value of INR 2,738 - 4,620 Bn through Tejas Mark 2, AMCA & TEDBF in our assumptions.

### Summary of HNAL's Platforms

Platform Name	Potential Aircraft #	Prototype	Induction Timeline	Potential/Order Value	Import Dependency	Current Status	Description	Country/Company/ Engine
Tejas Mark 1A	83 + 97	2010	Delivery Started from 2024	INR 1130 - 1230 Bn	30-40%	Delivery in Progress	Expect additional 97 aircrafts order in near future	US / GE / F404
Tejas Mark 2	108-180	2026	Phase-1 by 2028-29, Phase-2 by 2032	INR 941 - 1,711 Bn	30-40%	Delayed	Talks are underway at the govt-to-govt level	US / GE / F414
AMCA	126	2026-27	Induction starts from 2032	INR 1112 - 1625 Bn	30-40%	Delayed	Talks are underway at the govt-to-govt level	US / GE / F414
TEDBF	100	2026-27	Induction starts from 2032	INR 684 - 1283 Bn	40-50%	Delayed	Talks are underway at the govt-to-govt level	US / GE / F414
Helicopters LUH	110	2016	Acquisition is under process	INR 130 - 150 Bn	20-30%	On Track	Expect 110 Helicopters order in near future	Indo France JV/ Safran / Ardiden 1U
LCH Prachand	156	2010	2028	INR 670 Bn	30-40%	Received on Feb 28 <sup>th</sup> 2025	156 Helicopters	Indo France JV / Safran / Ardiden 1H1 Shakti
IMRH	550	2027-28	Induction starts from 2030	INR 1650 - 2500 Bn	20-30%	On Track	IAF-350, Indian Army-100, Indian Navy-60.	Indo France JV / Safran
<b>HNAL Potential Order Book Pipeline (For Long Term)</b>				<b>INR 6,317 – 9,169 Bn</b>				

Source: CEBPL Assumptions

**Catalyst Watch: Apprx. INR 2,738 - 4,620Bn Order Inflow**

In addition to the current order book pipeline, we expect significant order inflows from the Su-30MKI Upgradation program, CATS Warrior project, and aircraft ROH services. These contracts are expected to substantially enhance the company's financial performance.

### Key Investor Question: What is the Impact on HNAL; considering increase in Private Sector Involvement in Major Programs?

We have come across investors questioning about private sector participation in defense programs. In our view, HNAL's dominance is likely to remain intact due to its unmatched infrastructure, expertise, and role as the final integrator for major projects. While private firms contribute to subsystems, HNAL retains control, ensuring its strategic and financial strength. Its strong government ties, execution track record, and leadership in indigenous programs like Tejas Mark 2, AMCA, and LCH Prachand further reinforce its position. With robust order visibility, and a unique role in India's defense sector, HNAL's leadership is unlikely to be challenged in the foreseeable future.

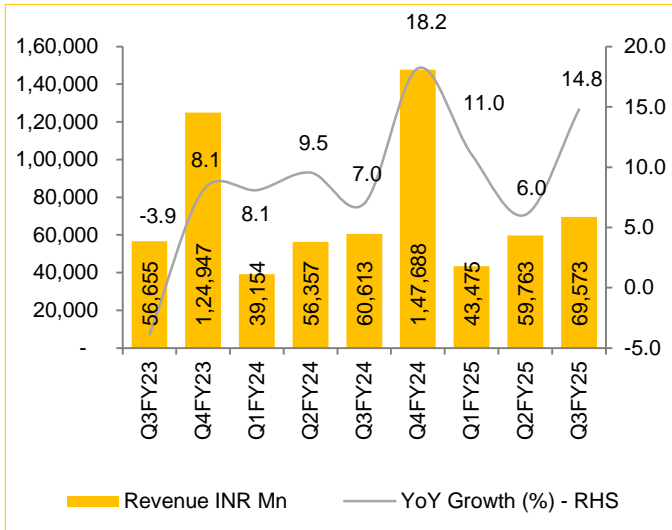
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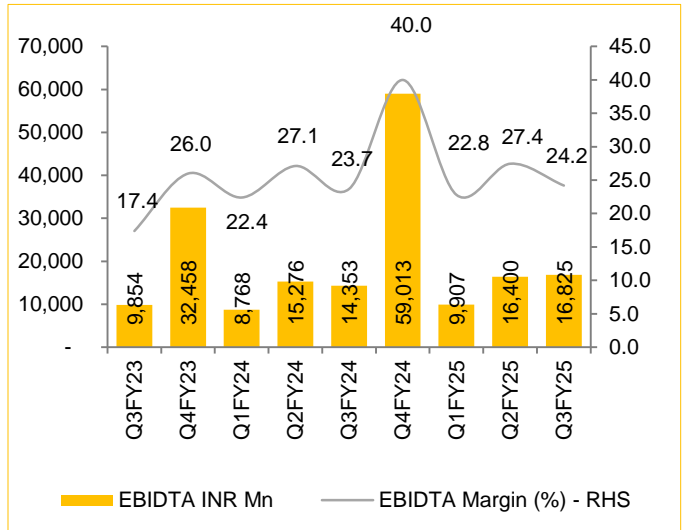
AMCA\* - Advanced Medium Combat Aircraft  
 IMRH\* - Indian Multi-Role Helicopter  
 LCH\* - Light Combat Helicopter  
 TEDBF\* - Twin Engine Deck-Based Fighter  
 LUH\* - Light Utility Helicopter

Revenue up by 14.8% YoY basis



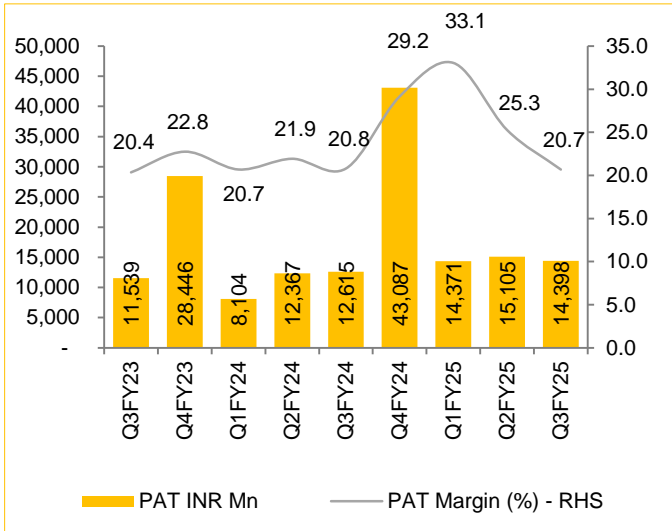
Source: Company, CEBPL

EBITDA Margin expanded 50bps



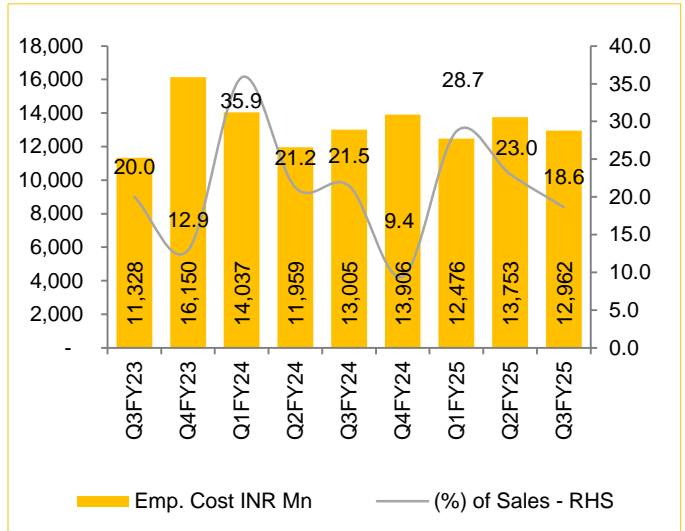
Source: Company, CEBPL

RPAT up by 14.1% on YoY basis



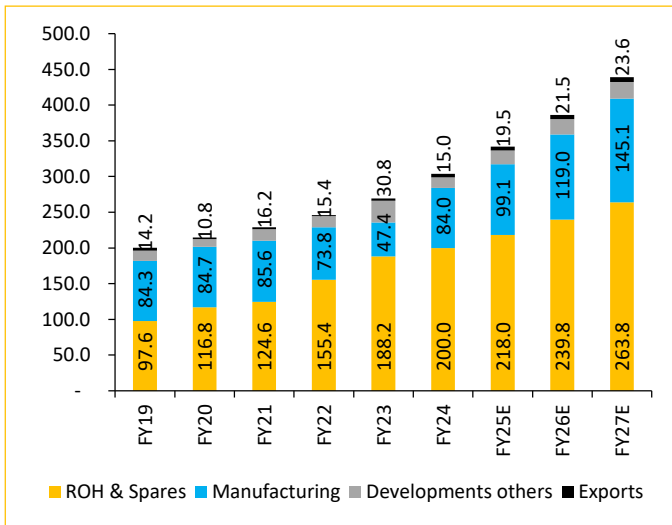
Source: Company, CEBPL

Reducing employee cost supports margin



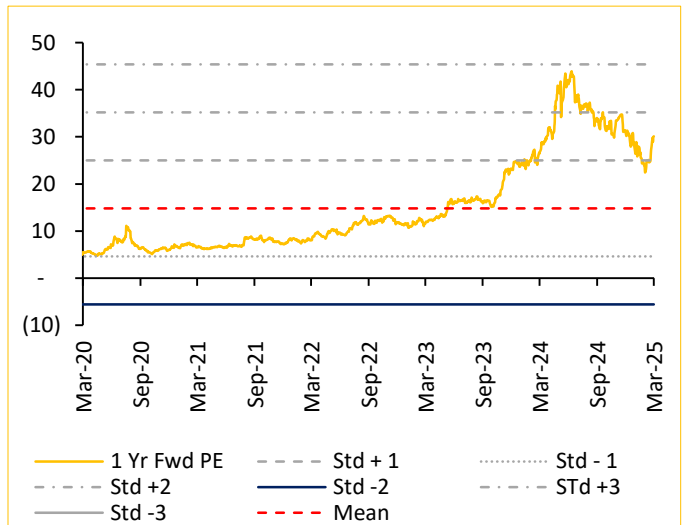
Source: Company, CEBPL

Revenue Mix (%) values are in Bn.



Source: Company, CEBPL

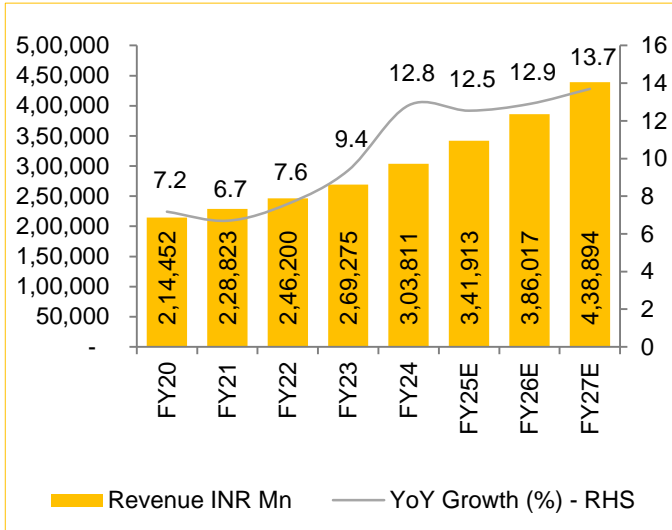
One year forward PE band



Source: Company, CEBPL

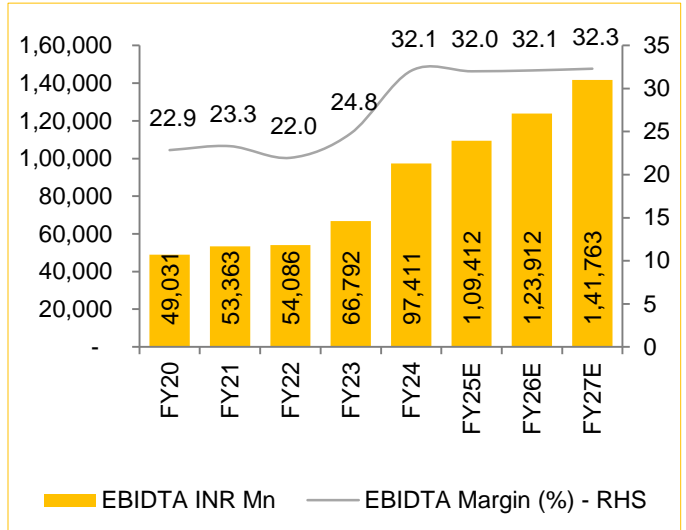
\*All figures are in INR Million

Revenue expected to grow 13% CAGR over FY24-27E



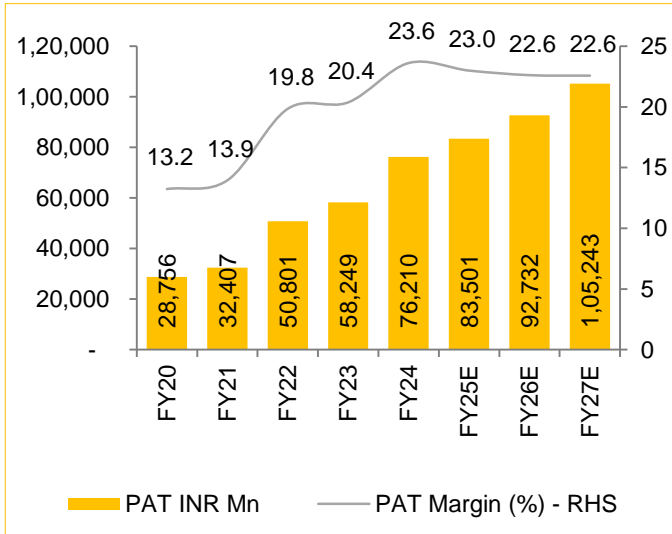
Source: Company, CEBPL

EBITDAM are expected to fall short of guidance in FY25



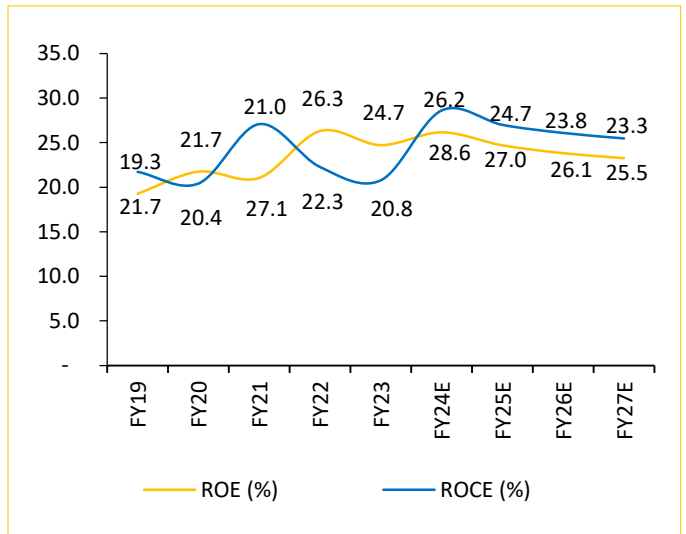
Source: Company, CEBPL

PAT expected to grow 11.4% CAGR over FY24-27E



Source: Company, CEBPL

ROE & ROCE Trend



Source: Company, CEBPL

\*All figures are in INR Million

## Income Statement (Consolidated in INR Mn)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,69,275	3,03,811	3,41,913	3,86,017	4,38,894
Gross Profit	1,68,254	1,93,220	2,11,986	2,39,331	2,72,114
<b>EBITDA</b>	<b>66,792</b>	<b>97,411</b>	<b>1,09,412</b>	<b>1,23,912</b>	<b>1,41,763</b>
Depreciation	17,847	14,072	18,180	22,380	26,580
EBIT	48,945	83,339	91,233	1,01,532	1,15,183
Interest Expense	580	321	1,026	1,158	1,317
Other Income	16,701	18,966	21,345	24,098	27,399
Reported PAT	58,249	76,210	83,501	92,732	1,05,243
<b>EPS</b>	<b>87.1</b>	<b>114.0</b>	<b>124.9</b>	<b>138.7</b>	<b>157.4</b>
NOPAT	43,816	62,115	67,968	75,641	85,812

Source: Company, CEBPL

## Balance Sheet (Consolidated in INR Mn)

Balance Sheet	FY23	FY24	FY25E	FY26E	FY27E
Net Worth	2,35,759	2,91,418	3,38,136	3,89,404	4,52,513
Total Debt	-	-	-	-	-
Other Liabilities & Provisions	1,28,006	1,26,290	1,48,048	1,67,532	1,90,919
<b>Total Net Worth &amp; Liabilities</b>	<b>3,63,765</b>	<b>4,17,709</b>	<b>4,86,184</b>	<b>5,56,935</b>	<b>6,43,432</b>
Net Fixed Assets	57,986	57,802	69,623	77,243	80,664
Capital Work in Progress	6,369	9,369	10,257	10,808	11,411
Investments	28,345	13,897	25,897	29,238	33,243
Cash & Bank Balance	2,03,166	2,64,316	2,95,426	3,42,645	4,07,827
Loans & Advances & Other Assets	60,646	69,817	80,813	91,237	1,03,735
Net Current Assets	2,10,419	2,66,824	2,99,594	3,48,409	4,14,380
<b>Total Assets</b>	<b>3,63,765</b>	<b>4,17,709</b>	<b>4,86,184</b>	<b>5,56,935</b>	<b>6,43,432</b>
Capital Employed	2,35,759	2,91,418	3,38,136	3,89,404	4,52,513
Invested Capital	32,593	27,102	42,710	46,759	44,687
Net Debt	(2,03,166)	(2,64,316)	(2,95,426)	(3,42,645)	(4,07,827)
FCFF	73,042	79,091	71,032	84,658	1,02,331

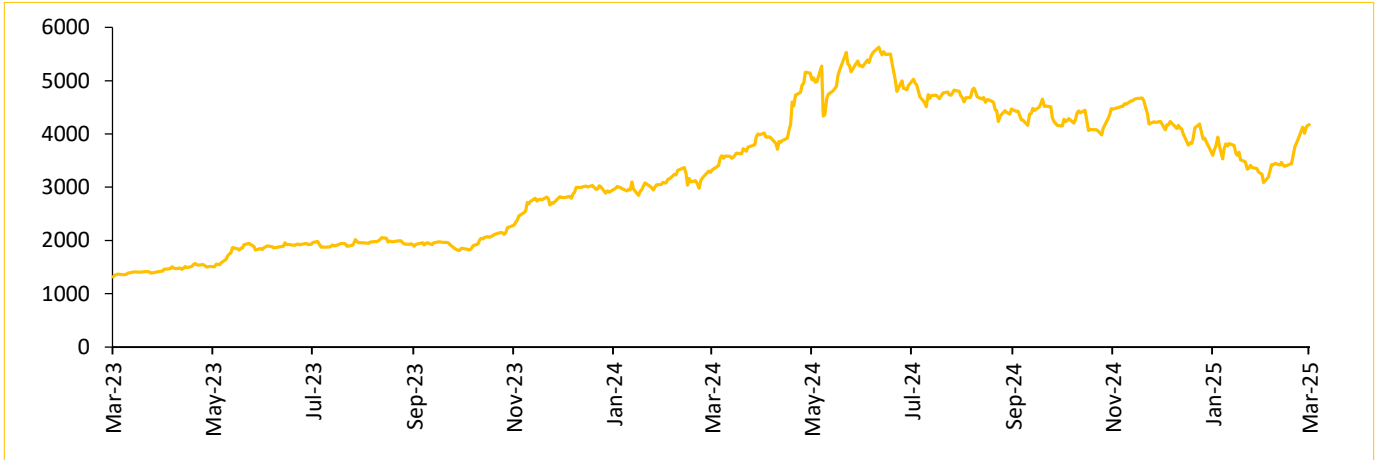
Source: Company, CEBPL

## Cash Flow Statement (Consolidated in INR Mn)

Cash Flows	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	80,916	82,228	1,01,032	1,14,658	1,32,331
Capex	(7,874)	(3,137)	(30,000)	(30,000)	(30,000)
FCF	73,042	79,091	71,032	84,658	1,02,331
Cash flows from Investing	(57,304)	(64,131)	(53,871)	(44,300)	(47,087)
Cash flows from Financing	(17,313)	(19,989)	(16,051)	(23,139)	(20,062)
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Ratios (%)</b>					
Revenue	9.4	12.8	12.5	12.9	13.7
EBITDA	23.5	45.8	12.3	13.3	14.4
PAT	14.7	30.8	9.6	11.1	13.5
<b>Margin Ratios (%)</b>					
EBITDA	24.8	32.1	32.0	32.1	32.3
PAT	21.6	25.1	24.4	24.0	24.0
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	1.2	0.8	0.9	0.9	0.9
OCF/IC	248.3	303.4	236.6	245.2	296.1
ROE	24.7	26.2	24.7	23.8	23.3
ROCE	20.8	28.6	27.0	26.1	25.5
<b>Turnover Ratios (Days)</b>					
Inventory (days)	165	159	163	165	165
Debtors (days)	64	55	58	57	57
Other Current Assets (days)	199	225	223	219	215
Payables (days)	42	41	45	45	45
Other Current Liab & Provns (days)	375	395	394	391	387
Cash Conversion Cycle (days)	10	3	4	5	5
<b>Financial Stability Ratios (x)</b>					
Net Debt/Equity	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Net Debt/EBITDA	(3.0)	(2.7)	(2.7)	(2.8)	(2.9)
Interest Coverage	84.4	259.5	88.9	87.7	87.5
<b>Valuation Metrics</b>					
Fully Diluted Shares (Mn)	669	669	669	669	669
Price (INR)	4177	4177	4177	4177	4177
Market Cap(INR Mn)	27,93,473	27,93,473	27,93,473	27,93,473	27,93,473
PE(x)	48	36.7	33.5	30.1	26.5
EV (INR Mn)	25,90,307	25,29,157	24,98,047	24,50,828	23,85,646
EV/EBITDA (x)	39	26	23	20	17
Book Value (INR/share)	353	436	506	582	677
Price to BV (x)	11.8	9.6	8.3	7.2	6.2
EV/OCF (x)	32	31	25	21	18

Source: Company, CEBPL

## Historical Price Chart: Hindustan Aeronautics Limited



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