

- In a significant move to bolster India's defense capabilities, the Defence Acquisition Council recently gave the green light for the procurement of 12 SU-30MKI jets for the Indian Air Force (IAF), a deal long overdue to HAL. Further, collaboration with Fabrica Argentina de Avionics (FAdeA) for MRO and offset requirements in the LATAM region not only strengthens India's defense capabilities but also positions itself as a global player in the aerospace industry. Company continue to focus on export market opportunities to achieve sustainable export growth in coming years.
- Moreover, the Defence Ministry's approval of a substantial Rs 60,000 crore upgrade for India's Su-30MKI fleet, spearheaded by HAL and supported by DRDO, underscores a strategic effort to modernize and fortify the aircraft with advanced radars, mission control systems, and weaponry.**
- As HAL explores new avenues for collaboration, such as the MoU with Fabrica Argentina de Avionics (FAdeA) for MRO and offset requirements in the LATAM region, and considers the development of armed variants of unmanned aerial vehicles (UAVs), it not only strengthens India's defense capabilities but also positions itself as a global player in the aerospace industry. HAL's engagement in discussions with multiple countries for the export of Tejas aircraft and ALH-Dhruv helicopters demonstrates India's commitment to fostering international partnerships while showcasing its advanced defense technologies on the global stage.
- In the last one quarter, HAL has signed a contract for RD-33 Aero Engines for the MiG-29 aircraft, aiming to sustain the operational capability of the Indian Air Force's MiG-29 fleet while increasing indigenous content in future repairs. Furthermore, **HAL is in talks with various countries like Egypt and the Philippines, offering Tejas Mk1 with BrahMos-NG combo to the Philippines Air Force and proposing transfer of technology for local assembly of Tejas mk1A fighter jets to Egypt and the Philippines, along with discussions to offer ALH-Dhruv helicopters to the Philippines.**

View and valuation: We have a positive outlook on HAL, as the company faces limited competition from the private sector due to the high capital intensity and long gestation periods for developing manufacturing capabilities in the sector supported by: 1) Strategic diversification into civilian sector, 2) Some big ticket future orders with new orders anticipated for LUH, LCH, Su-30, and HTT-40 in the near to medium term, 3) Strategically positioned itself as a sole supplier domestically. 4) Make collaboration with foreign giants (Safran, Airbus), 5) The company's massive order book stood appx. Rs.840bn which is ~3.1x of FY23 revenue, would support the growth story of the company. We ascribe **"BUY"** rating on the stock with a TP of **Rs.3,878 (33x of FY26E EPS)** increasing in the multiple is reflection of winning new order in near term like Tejas MK1A, Sukhoi-30MKI up-gradation, ALH Dhruv Helicopters and various aerospace structures for PSLV and GSLV etc and focus on export opportunity .

Platform Name	Event Status	Key Deliverables	Contract Value Rs Cr.
Mig-29UPG	Program awarded-01-03-24	RD-33MK Variant, Improved engine with thrust to weight ratio, lower specific fuel consumption and a longer service life. Contingency takeoff power setting, improved corrosion protection of parts and components. modern digital electronic management and control system (FADEC)	5,249.72
LCA Initial Operational Clearance (IOC)	Program awarded-06-03-24	Line Replaceable Units (LRUs) self-contained modules, composite raw materials, consumables.	5,077.95
ALH Dhruv Helicopter	Will be awarded in near term	The Advanced Light Helicopter (Dhruv) is a multi-role, new-generation helicopter in the 5.5-ton weight class, indigenously designed and developed by HAL.	8,000
Sukhoi-30MKI	Will be awarded in near term	Electronic Warfare Suite, Radar, Infrared Search and Track System (IRST), Cockpit Layout, Integrating Touch Based Large Area Display(LADs) and Electronic Pilot with AI support.	60,000

Quarterly performance

Particulars (in mn)	9MFY24	9MFY23	YoY (%)
Net Sales (incl OOI)	1,56,121	1,44,333	8.2
Material Exp	62,192	53,551	16.1
Gross Profit	93,929	90,782	3.5
Employee Exp	38,892	32,845	18.4
Other Exp	16,611	23,731	(30.0)
EBITDA	38,425	34,205	12.3
Depreciation	7,627	7,286	4.7
EBIT	30,798	26,920	14.4
Other Income	13,415	9,498	41.2
Interest Cost	7	26	(74.9)
PBT	44,206	36,392	21.5
Tax	11,176	6,693	67.0
RPAT	33,030	29,699	11.2
Adj EPS (Rs)	50	46	8.7

Margin Analysis	Q2FY24	Q2FY23	YoY (bps)
Gross Margin (%)	53.2	56.1	(282.5)
Employee Exp. % of Sales	21.5	20.0	146.1
Other Op. Exp % of Sales	8.1	18.7	(1,057.2)
EBITDA Margin (%)	23.68	17.4	628.7
Tax Rate (%)	25%	5%	20.6
APAT Margin (%)	20.7	20.1	58.3

Source: Company, CEBPL

Mar 12, 2024	
CMP (Rs)	3370
Target Price (Rs)	3878
Potential Upside (%)	15.1
Company Info	
BB Code	HNAL IN EQUITY
ISIN	INE066F01020
Face Value (Rs.)	5.0
52 Week High (Rs.)	3428.7
52 Week Low (Rs.)	1237.5
Mkt Cap (Rs bn.)	2253.7
Mkt Cap (\$ bn.)	27.2
Shares o/s (Mn.)	669.0
Adj. TTM EPS (Rs)	91.8
FY26E EPS (Rs)	118.2

Shareholding Pattern (%)

	Dec-23	Sep-23	Jun-23
Promoters	71.64	71.64	71.64
FII's	12.93	12.63	11.90
DII's	9.13	9.72	10.64
Public	6.28	6.02	5.81

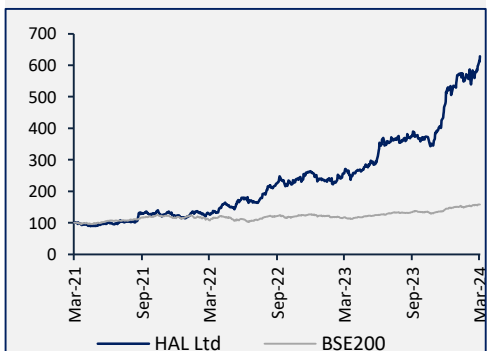
Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 200	58.7	48.1	34.8
HAL	528.9	401.5	144.7

Year end March (INR bn)

Particular	FY24E	FY25E	FY26E
Revenue	293.3	327.9	376.2
Gross Profit	162.4	181.8	206.8
EBITDA	74.4	83.8	98.8
EBITDA (%)	25.4	25.6	26.3
EPS (INR)	90.2	101.0	117.5

Rebased Price Performance



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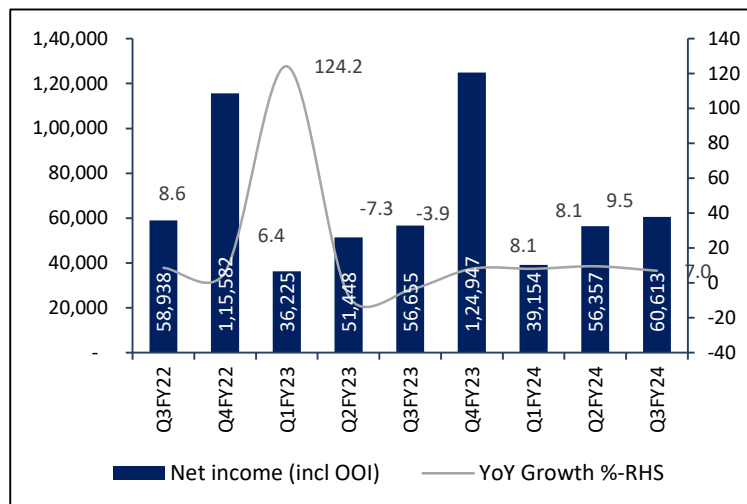
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Changes in Estimates

(INR Bn.)	FY24E			FY25E			FY26E		
	New	Old	Dev. (%)	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	293.3	296.2	(1.0)	327.9	331.1	(1.0)	376.2	373.5	0.7
EBITDA	74.4	75.8	(1.8)	83.8	85.1	(1.5)	98.8	97.4	1.4
EBITDA margin(%)	25.4	25.6	-20bps	25.6	25.7	-10bps	26.3	26.1	+20bps
APAT	60.3	56.9	6.0	67.5	63.7	6.0	78.6	73.8	6.5
EPS	90.2	85.1	6.0	101.0	95.2	6.1	117.5	110.3	6.5

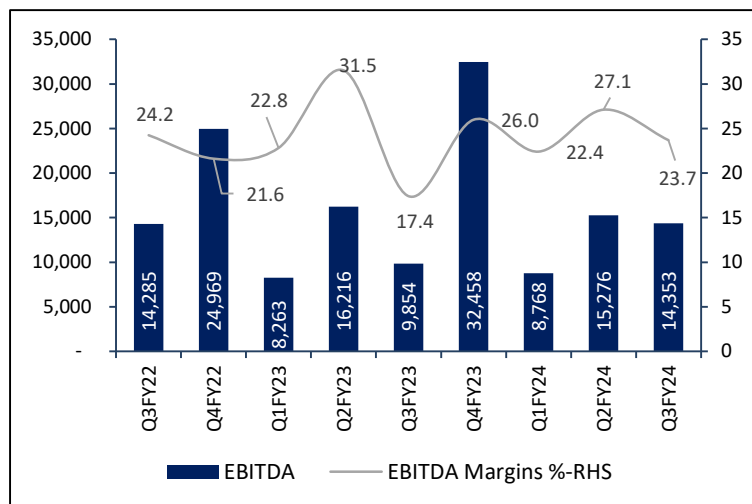
Source: Company, CEBPL

Revenue grew by 7.0% YoY



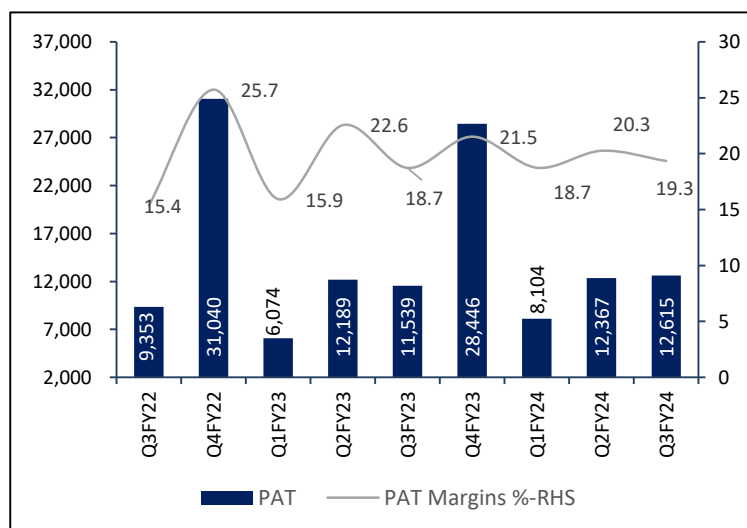
Source: Company, CEBPL

EBITDA grew 45.7% YoY.



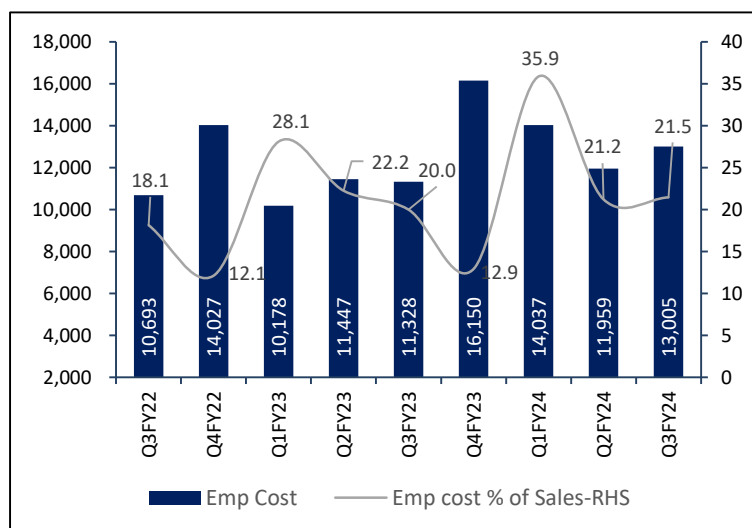
Source: Company, CEBPL

Improved PAT ~10.0% growth on YoY basis



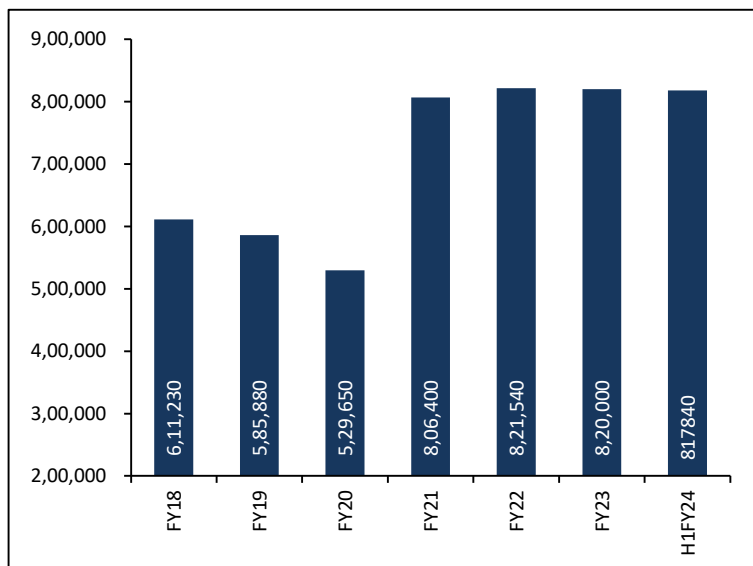
Source: Company, CEBPL

Reduction in Emp. Cost would support margins further



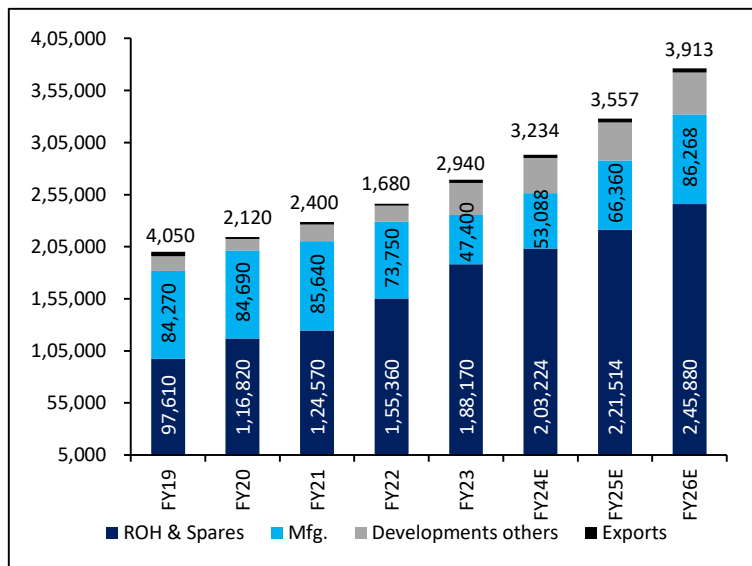
Source: Company, CEBPL

Healthy Order Book Position



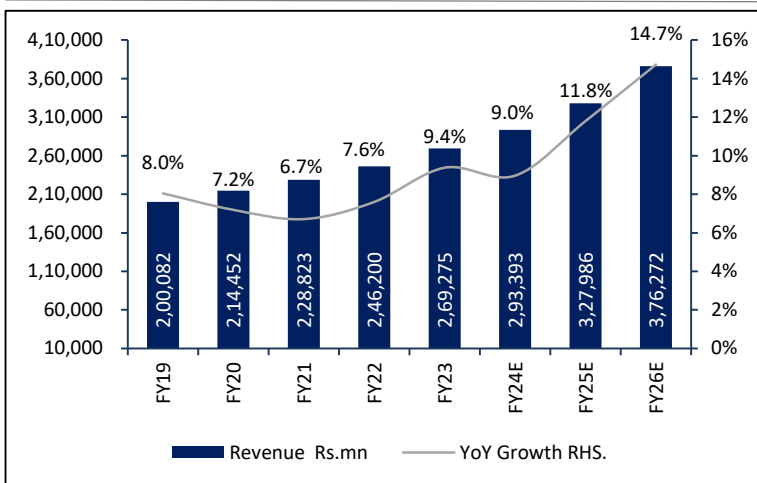
Source: Company, CEBPL

Revenue Mix (%)



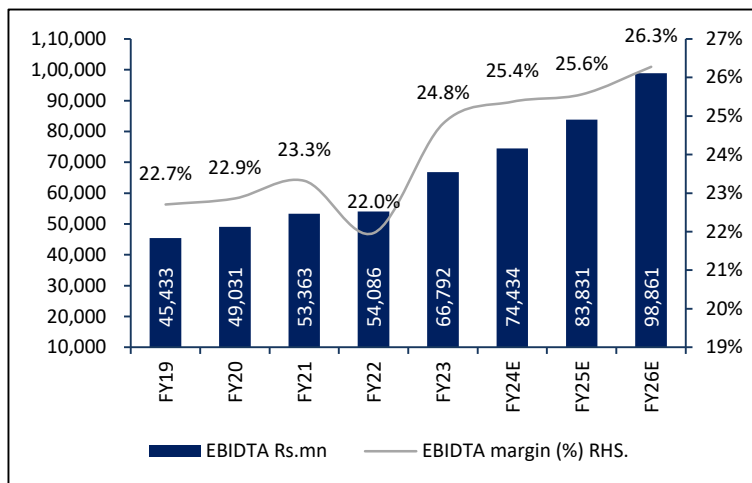
Source: Company, CEBPL

Healthy revenue growth visibility over FY23-26E



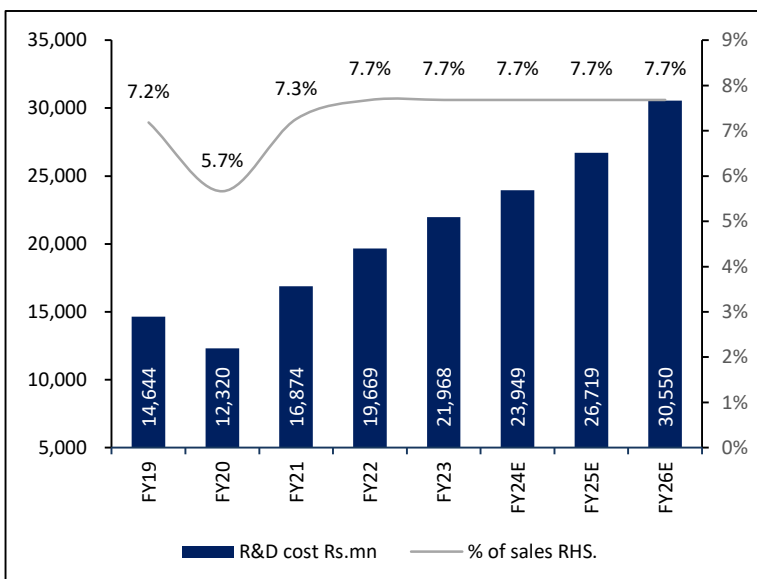
Source: Company, CEBPL

EBIDTA margin to improve led by better mix and staff cost rationalization



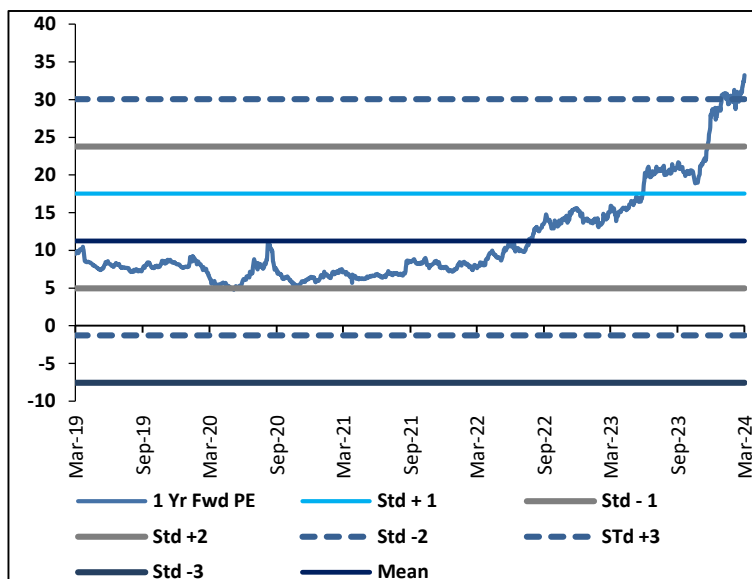
Source: Company, CEBPL

R&D Expenditure Trend



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,46,200	2,69,275	2,93,393	3,27,986	3,76,272
Gross profit	1,46,188	1,68,254	1,62,452	1,81,899	2,06,851
EBITDA	54,086	66,792	74,434	83,831	98,861
Depreciation	11,105	17,847	12,198	13,424	15,198
EBIT	42,980	48,945	62,236	70,406	83,663
Interest expense	582	580	684	821	985
Other Income (Including EO Items)	9,849	16,701	18,371	19,841	21,428
Reported PAT	50,802	58,249	60,342	67,517	78,600
Minority Interest	(1)	-	-	-	-
Adjusted PAT	50,800	58,277	60,342	67,517	78,600
EPS (Rs)	76.0	87.1	90.2	101.0	117.5
NOPAT	41,790	43,816	46,988	53,157	63,166

Balance sheet (Consolidated in INR Mn.)

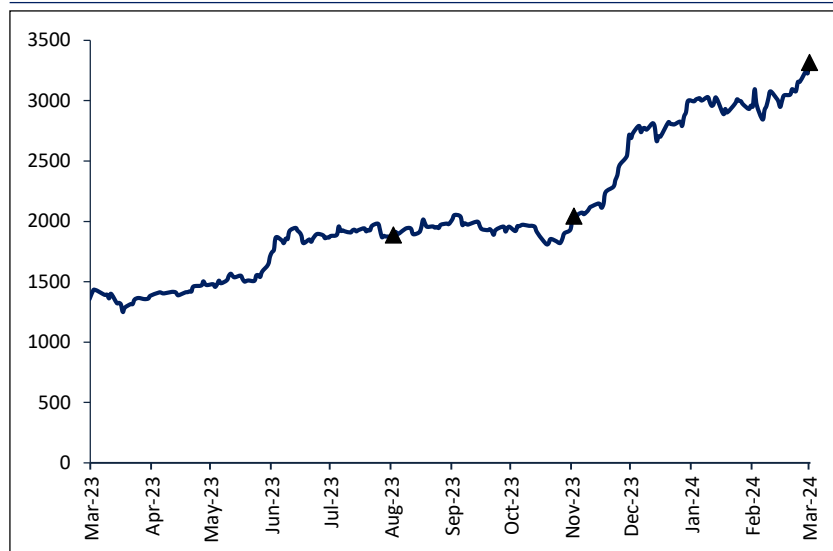
Particular	FY22	FY23	FY24E	FY25E	FY26E
Net worth	1,93,169	2,35,759	2,62,662	2,93,396	3,30,533
Minority Interest	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1,27,896	1,14,535	1,32,027	1,50,874	1,76,848
Long term provisions	12,630	13,471	13,500	14,000	14,500
Total Net Worth & liabilities	3,33,694	3,63,765	4,08,189	4,58,270	5,21,880
Net Fixed Assets	59,276	57,986	50,788	52,363	52,165
Capital Work in progress	9,491	6,369	7,000	7,400	7,800
Investments	21,777	28,345	29,339	32,799	45,153
Cash & bank balance	1,43,477	2,03,166	2,47,466	2,66,688	3,09,495
Loans & Advances & other assets	43,602	60,646	60,968	68,072	81,692
Net Current Assets	1,99,549	2,10,419	2,60,093	2,97,636	3,35,071
Total Assets	3,33,694	3,63,765	4,08,189	4,58,270	5,21,880
Capital Employed	1,93,169	2,35,759	2,62,662	2,93,396	3,30,533
Invested Capital	49,692	32,593	15,196	26,708	21,038
Net Debt	(1,43,477)	(2,03,166)	(2,47,466)	(2,66,688)	(3,09,495)
FCFF	91,780	73,099	63,421	50,102	88,823

Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
CFO	99,801	80,973	69,052	65,502	1,04,223
Capex	(8,021)	(7,874)	(5,631)	(15,400)	(15,400)
FCF	91,780	73,099	63,421	50,102	88,823
CFI	(1,27,917)	(57,367)	(6,625)	(18,859)	(27,754)
CFF	(14,637)	(17,313)	(34,123)	(37,603)	(42,449)
Ratio Analysis	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratios (%)					
Revenue	7.6	9.4	9.0	11.8	14.7
EBITDA	1.4	23.5	11.4	12.6	17.9
PAT	56.5	14.7	3.5	11.9	16.4
Margin ratios (%)					
EBITDA	22.0	24.8	25.4	25.6	26.3
PAT	20.6	21.6	20.6	20.6	20.9
Performance Ratios (%)					
OCF/EBITDA (X)	1.8	1.2	0.9	0.8	1.1
OCF/IC	200.8	248.4	454.4	245.3	495.4
RoE	26.3	24.7	23.0	23.0	23.8
ROCE	22.3	20.8	23.7	24.0	25.3
Turnover Ratios (Days)					
Inventory	213	165	200	250	250
Debtor	69	64	64	70	75
Other Current Assets (days)	173	199	183	146	128
Payables (days)	38	42	45	50	51
Other Current Liab & Provns (days)	333	375	386	382	377
Cash Conversion Cycle	83	10	16	34	25
Financial Stability ratios (x)					
Net debt to Equity	(0.7)	(0.9)	(0.9)	(0.9)	(0.9)
Net debt to EBITDA	(2.7)	(3.0)	(3.3)	(3.2)	(3.1)
Interest Cover	73.8	84.4	91.0	85.8	84.9
Valuation metrics					
Fully diluted shares (mn)	669	669	669	669	669
Price (Rs)	3,370	3,370	3,370	3,370	3,370
Market Cap(Rs. Mn)	22,53,772	22,53,772	22,53,772	22,53,772	22,53,772
PE(x)	44	39	37.4	33.4	28.7
EV (Rs.mn)	21,10,295	20,50,606	20,06,306	19,87,083	19,44,277
EV/EBITDA (x)	39	31	27	24	20
Book value (Rs/share)	289	353	393	439	494
Price to BV (x)	11.7	9.6	8.6	7.7	6.8
EV/OCF (x)	21	25	29	30	19

Source: Company, CEBPL

Historical recommendations and target price: Hindustan Aeronautics Limited



Hindustan Aeronautics Limited

1.	10-08-2023	ADD,	Target Price Rs.2172
2.	15-11-2023	OUTPERFORM,	Target Price Rs.2427
3.	11-03-2024	BUY,	Target Price Rs.3878

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
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SELL	The security expected to show Below 0% next 12 months

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