

Q1FY26 Quarterly Results Preview

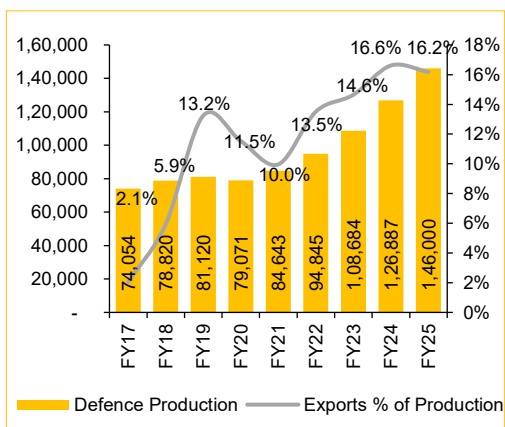
Defence & Aerospace Sector

Sector View: Positive

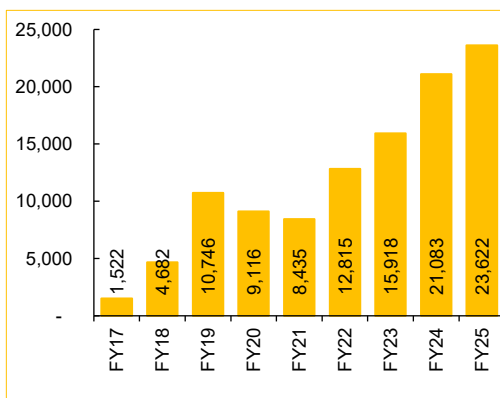
Recommendation			
Company	CMP (INR)	TP (INR)	Rated
APOLLO	187	200	BUY
ASTM	1,044	1,050	REDUCE
AZAD	1,619	1,865	REDUCE
BDL	1,970	1,785	REDUCE
BHE	422	500	BUY
CTE	2,317	2,050	SELL
DATAPATT	2,983	2,915	ADD
DCXINDIA	291	260	SELL
HNAL	5,003	5,570	ADD

*CMP as on July 08 '2025

Defence production vs Exports over FY17-25 (INR Cr)



Defence export from FY17-25 (INR Cr)



Structural upcycle intact - strong execution, policy momentum, and export tailwinds to drive resilient growth.

India's defence sector continues to operate within a strong structural upcycle, propelled by increased capital allocation, accelerating indigenization, and growing global trust in India as a strategic defence partner. For Q1FY26, we expect companies across the value chain from DPSUs like HAL, BEL, and BDL to agile, private players to post healthy revenue growth, largely in the mid to high teens. Margins are expected to remain stable or expand slightly YoY, driven by operating leverage and a favorable product mix. And large order books (3x-6x book to bill for BEL, HAL, and BDL) continue to provide multi-year growth visibility.

The sector's outlook is further supported by the record FY26 capital outlay of INR 1.72 Trillion (up 9% YoY), with 75% earmarked for domestic procurement. The MoD is reportedly targeting acquisitions worth INR 2 Trillion, alongside recent emergency procurement approvals for high-priority systems such as loitering munitions, naval radars, and EW suites. These developments benefit both established and emerging players, including BEL, BDL, Astra Microwave, Apollo Micro Systems, and Data Patterns. On the global front, India's defence exports surged to INR 21,083 crore in FY25 (a 32% YoY increase). Long-term contracts with global OEMs and JV's such as HAL-Safran and BEL-Thales further reinforce India's role in global supply chains.

Global OEM linkages are making Indian defence players integral to global value chains.

Indian defence companies are rapidly transitioning from domestic suppliers to strategic partners in the global aerospace and defence ecosystem. Export revenues have increased ten folds over the past decade, surpassing INR 21,000 crore in FY25, with a government target of INR 50,000 crore by 2029. This growth underscores the rising integration of Indian firms into global supply chains, led by collaborations with international OEMs.

Strategic joint ventures - such as HAL-Safran and BEL-Thales, are strengthening India's defence technology capabilities, facilitating the development of advanced platforms and subsystems. These alliances not only enhance indigenous capabilities but also pave the way for long-term, non-cyclical export contracts, reinforcing India's position as a key node in global defence value chains.

View: We remain structurally positive on India's defence ecosystem, supported by strong government backing, robust execution capabilities, and long-term policy visibility. We expect Q1FY26 earnings to reflect this transformation, with companies across the value chain from platforms to electronics and components demonstrating resilience, execution strength, and healthy visibility. **HAL and BEL remain our top picks**, given their scale, execution track record, and strategic relevance in the evolving defence landscape. **We view any short-term volatility as an opportunity to accumulate high-quality names with long-term structural upside.**

Risk associated to our view:

Risks to our view include geopolitical tensions, dependence on foreign technology, supply chain disruptions impacting execution timelines, fiscal constraints potentially affecting defence spending.

Putta Ravi Kumar,

Email: ravi.putta@choiceindia.com

Ph: +91 22 6707 9908

Company (INR Mn)	Sales		EBITDA		EBITDA Margin (%)		PAT		Key Assumptions
	Q1FY26E	YoY(%)	Q1FY26E	YoY(%)	Q1FY26E	YoY(bps)	Q1FY26E	YoY(%)	
Apollo Micro Systems Limited (APOLLO)	1,548	19.0%	395	76.6%	25.5%	100bps	195	131.0%	We expect strong 19% YoY growth in revenue, led by traction in indigenous defence and aerospace components. EBITDA margin is forecast to rise 100bps to 25.5% with better scale and improved mix. PAT likely to grow 131% YoY, supported by margin gains and operating leverage.
Astra Microwave Products Limited (ASTM)	1,781	14.7%	321	33.5%	18.0%	250bps	127	76.9%	Moderate 14.7% YoY revenue growth is assumed, supported by continued execution in radar subsystems and microwave products. EBITDA margin improvement of 250bps to 18% reflects operating leverage and higher contribution from proprietary products. PAT growth of 76.9% YoY is led by improved operating performance.
Azad Engineering Ltd (AZAD)	1,314	33.5%	444	34.4%	33.8%	20bps	264	54.3%	33.5% YoY topline growth is expected, driven by improved capacity utilization and steady order flow in aerospace and energy components. EBITDA margin is likely to expand 200bps YoY to 33.8%, reflecting better realizations and scale benefits. PAT expected to grow 54.3%, mirroring strong operating momentum.
Bharat Dynamics Limited (BDL)	4,985	165.5%	1,073	N.M	21.2%	N.M	1,297	1697%	We expects a sharp 165.5% YoY growth in revenue is factored in, led by back-ended execution of missile contracts and ramp-up in Akash and ATGM systems. EBITDA margin is estimated at 21.2%, reflecting scale benefits. PAT is expected to surge 1697% YoY due to a low base and improved profitability.
Bharat Electronics Limited (BHE)	50,485	19.0%	11,244	18.6%	22.3%	0bps	9,138	17.0%	Sales expected to decline 19% YoY due to a high base and seasonal lumpiness in order execution. However, margins are assumed to remain stable at 22.3%, supported by cost efficiencies and favorable product mix. PAT decline of 17% is largely due to the drop in topline.
Centum Electronics Limited (CTE)	2,733	14.4%	204	31.4%	7.5%	1120bps	222	N.M	Topline growth of 14.4% is led by ramp-up in EMS and aerospace segments. Significant margin improvement to 7.5% (up 1120bps YoY) is expected due to operational turnaround and restructuring benefits. PAT estimated at ₹222 mn compared to losses in base period.
Data Patterns Limited (DATAPATT)	1,328	15.0%	478	28.6%	36.0%	30bps	407	24.0%	15% YoY revenue growth is based on execution of high-value defence electronics and radar subsystems. EBITDA margin is estimated to improve 30bps YoY to 36% on operating leverage. PAT is forecast to grow 24%, aided by robust profitability and lower interest costs.
DCX Systems Limited (DCXINDIA)	1,534	11.1%	(32)	N.M	(2.1%)	N.M	102	246.5%	Revenue growth is muted at 11.1% YoY due to execution delays and slower-than-expected ramp-up in integration projects. Company is expected to post negative EBITDA on account of under-absorption of fixed costs and weaker product mix. PAT remains in the green on account of low base and other income support.
Hindustan Aeronautics Limited (HNAL)	53,858	23.9%	12,549	26.7%	23.3%	50bps	14,326	(0.3%)	We expect a 23.9% YoY growth in sales, driven by sustained execution of large defence platform orders, particularly in fighter jets and helicopters. EBITDA margin expansion of 50bps to 23.3% is assumed on account of better absorption of fixed costs and favorable operating leverage. PAT is likely to remain flattish due to higher depreciation and tax.

Institutional Research Team

Utsav Verma, CFA	Head of Institutional Research	utsav.verma@choiceindia.com	+91 22 6707 9440
Prashanth Kumar Kota, CFA	Analyst – Basic Materials	prashanth.kota@choiceindia.com	+91 22 6707 9887
Mehul Mehta	Analyst – Industrials	mehul.mehta@choiceindia.com	+91 22 6707 9930
Dhanshree Jadhav	Analyst – Technology	dhanshree.jadhav@choiceindia.com	+91 22 6707 9535
Karan Kamdar	Analyst – SMID	karan.kamdar@choiceindia.com	+91 22 6707 9930
Deepika Murarka	Analyst – Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Putta Ravi Kumar	Analyst – Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Maitri Sheth	Analyst – Pharmaceuticals	maitri.sheth@choiceindia.com	+91 22 6707 9511
Ashutosh Murarka	Analyst – Cement & Infrastructure	ashutosh.murarka@choiceindia.com	+91 22 6707 9887
Dhaval Popat	Analyst – Energy	dhaval.popat@choiceindia.com	+91 22 6707 9949
Aayush Saboo	Sr. Associate– Real Estate	aayush.saboo@choiceindia.com	+91 22 6707 9512
Bharat Kumar Kudikyala	Sr. Associate – Building Materials and Mining	bharat.kudikyala@choiceindia.com	+91 22 6707 9887
Avi Jhaveri	Sr. Associate – Technology	avi.jhaveri@choiceindia.com	+91 22 6707 9216
Kunal Bajaj	Sr. Associate – Technology	kunal.bajaj@choiceindia.com	+91 22 6707 9884
Abhinav Kapadia	Sr. Associate – Capital Goods	abhinav.kapadia@choiceindia.com	+91 22 6707 9707
Vikrant Shah, CFA (ICFAI)	Sr. Associate – Banks	vikrant.shah@choiceindia.com	+91 22 6707 9887
Vinay Rawal	Associate – SMID	vinay.rawal@choiceindia.com	+91 22 6707 9887
Heet Chheda	Associate – Auto	heet.chheda@choiceindia.com	+91 22 6707 9952
Rushil Katiyar	Associate – Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9887
Aryan Goyal	Associate – Auto	aryan.goyal@choiceindia.com	+91 22 6707 9517
Sumit Pandey	Executive	pandey.sumit@choiceindia.com	+91 22 6707 9887

CHOICE RATING DISTRIBUTION & METHODOLOGY

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 in statis 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

Disclaimer

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Choice Equity Broking Private Limited-Research Analyst - INH000000222. (CIN. NO.: U65999MH2010PTC198714). Reg. Add.: Sunil Patodia Tower, J B Nagar, Andheri(East), Mumbai 400099. Tel. No. 022-6707 9999

Compliance Officer--Prashant Salian, Email Id – Prashant.salain@choiceindia.com Contact no. 022- 67079999- Ext-2310

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- ig@choiceindia.com

Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors

This Research Report (hereinafter referred as “Report”) has been prepared by Choice Equity Broking Private Limited as a Research Entity (hereinafter referred as “CEBPL RE” Limited). The Research Analysts, strategists are principally responsible for the preparation of “CEBPL RE” research. The research analysts have received compensation based upon various factors, which may include quality of research, investor client feedback, stock picking, competitive factors and firm revenues etc.

Whilst CEBPL has taken all reasonable steps to ensure that this information is correct, CEBPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and CEBPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication of future performance.

General Disclaimer: This ‘Report’ is strictly meant for use by the recipient and is not for circulation. This Report does not take into account particular investment objectives, financial situations or specific needs of individual clients nor does it constitute a personal recommendation. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through CEBPL nor any solicitation or offering of any investment/trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this “Report” should rely on information/data arising out of their own Study/investigations. It is advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This ‘Report’ has been prepared on the basis of publicly available information, internally developed data and other sources believed by CEBPL to be reliable. CEBPL or its directors, employees, affiliates or representatives shall not be responsible for, or warrant for the accuracy, completeness, adequacy and reliability of such information / opinions / views. Though due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of CEBPL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this report.

The price and value of the investments referred to in this Report and the income from them may tend to go down as well as up, and investors may incur losses on any investments. Past performance shall not be a guide for future performance. CEBPL does not provide tax advice to its clients, and all investors are strongly advised to take advice of their tax advisers regarding taxation aspects of any potential investment. Opinions are based on the current scenario as of the date appearing on this 'Report' only. CEBPL does not undertake to advise you as to any change of our views expressed in this "Report" may differ on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold CEBPL, its employees and associates responsible for any losses, damages of any type whatsoever.

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject "CEBPL RE" to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by "CEBPL RE" in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this 'Report' shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. "CEBPL" requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to "CEBPL". Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in Mumbai (India). Statements on ownership and material conflicts of interest, compensation - CEBPL and Associates reciprocates to the best of the knowledge and belief of CEBPL/ its Associates/ research Analyst who is preparing this report.

Disclosures of Interest (Additional):

1. "CEBPL", its research Analyst(s), or its associates or relatives of the Research Analyst does not have any financial interest in the company(ies) covered in this report.
2. "CEBPL" its research Analyst, or its associates or relatives of the research analyst affiliates collectively do not hold more than 1 of the securities of the company(ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
3. "CEBPL", its research analyst, his/her associate, his/her relative, do not have any other material conflict of interest at the time of publication of this research report.
4. "CEBPL", its research analyst, and its associates have not received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in this report, in the past twelve months.
5. "CEBPL", its research analyst, or its associates have not managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies) covered in this report.
7. "CEBPL", or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party, in connection with the research report.
8. CEBPL research analyst has not served as an Officer, Director, or employee of the company (ies) covered in the Research report.
9. "CEBPL", its research analyst has not been engaged in market making activity for the company(ies) covered in the Research report.

Details of Associates of CEBPL and Brief History of Disciplinary action by regulatory authorities are available on our website i.e. <https://choiceindia.com/research-listing>

Sr. No.	Particulars	Yes / No
1.	Whether compensation has been received from the company(ies) covered in the Research report in the past 12 months for investment banking transaction by CEBPL	No
2	Whether Research Analyst, CEBPL or its associates or relatives of the Research Analyst affiliates collectively hold more than 1 of the company(ies) covered in the Research report	No
3.	Whether compensation has been received by CEBPL or its associates from the company(ies) covered in the Research report	No
4.	CEBPL or its affiliates have managed or co-managed in the previous twelve months a private or public offering of securities for the company(ies) covered in the Research report	No
5.	CEBPL, its research analyst, his associate, or its associates have received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in the Research report, in the last twelve months	No

Copyright: The copyright in this research report belongs exclusively to CEBPL. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the CEBPL's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

This "Report" is for distribution only under such circumstances as may be permitted by applicable law. This "Report" has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This "Report" is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither CEBPL nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this "report" or lack of care in this report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Information barriers may be relied upon by CEBPL, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of CEBPL.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by CEBPL with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior written consent of CEBPL and CEBPL accepts no liability whatsoever for the actions of third parties in this respect.

The details of CEBPL, its research analyst and its associates pertaining to the companies covered in the Research report are given above.