

Hindustan Aeronautics

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR4,409 TP: INR5,800 (+32%) Buy

Engine supplies ramping up

Hindustan Aeronautics (HAL) reported a decent quarter with a slight miss on revenue, which was offset by better-than-expected margins and higher other income. This resulted in a beat at the PAT level. EBITDA margin at 26.6% was aided by improved gross margin and sharply lower provisions. With engine supplies ramping up from GE for the Tejas Mk1A aircraft order, we expect aircraft deliveries to accelerate in the coming quarters. We also anticipate a strong manufacturing order book to support its execution growth. We maintain our estimates and roll forward our TP to INR5,800 based on the average of DCF and 32x Sep'27E earnings. The stock has come off from the highs in the last quarter and is currently trading at attractive valuations of 31x/27x P/E on FY26/27E earnings. HAL's growth catalysts are emerging from the Tejas aircraft deliveries and the finalization of orders for 97 Tejas-Mk1A. Reiterate BUY.

Beat on profitability

HAL reported a decent set of numbers in 1QFY26 with a beat on PAT, in-line EBITDA, and a miss on revenue. Revenue grew 11% YoY to INR48.2b vs. our estimate of INR52.5b. Gross margin improved 140bp YoY to 68% in 1QFY26 vs. our estimate of 66%. Absolute EBITDA grew 29% YoY to INR12.8b, which was in line, while EBITDA margin expanded 580bp YoY to 26.6% during the quarter vs. our estimate of 24.0%. Margin improved and was above our estimate, mainly fueled by lower-than-expected provisions made during the year. HAL's PAT was down 4% YoY at INR13.8b but was still 10% ahead of our estimate of INR12.6b. The beat on PAT was primarily driven by 1) better-than-expected margins, 2) lower-than-expected depreciation, and 3) higher other income.

Update on the Tejas Mk1A project

In a boost to the Tejas Mk 1A program, HAL has begun receiving vital components from the domestic industry, notably the first batch of wing assemblies from L&T, highlighting increasing private-sector collaboration under the Make-in-India initiative. On the engine front, delivery of GE F-404-IN20 engines is now firmly back on track, with two engines already delivered and one more expected this month. GE is now targeting to deliver two engines per month from Oct'25 onwards, which will ease earlier bottlenecks and support HAL's aim to deliver 12 jets in FY26. HAL has also formally issued a Letter of Intent to Israel's ELTA Systems for supplying radar and electronic warfare systems, choosing imported technology over the indigenous Uttam AESA radar due to certification delays. With supply chain challenges now resolved and testing validated, HAL expects a smooth ramp-up in production and deliveries in the years ahead. Our estimates bake in eight aircraft deliveries for FY26 and 16 aircraft from FY27 onwards.

Bloomberg	HNAL IN
Equity Shares (m)	669
M.Cap.(INRb)/(USDb)	2948.9 / 33.6
52-Week Range (INR)	5166 / 3046
1, 6, 12 Rel. Per (%)	-7/16/-7
12M Avg Val (INR M)	8421

Financials Snapshot (INR b)

Y/E March	2026E	2027E	2028E
Sales	375.0	453.4	584.6
EBITDA	111.8	129.8	159.4
Adj. PAT	94.4	107.8	132.4
Adj. EPS (INR)	141.2	161.2	197.9
EPS Gr. (%)	13.0	14.2	22.7
BV/Sh.(INR)	624.3	740.5	893.4

Ratios

RoE (%)	22.6	21.8	22.2
RoCE (%)	23.4	22.4	22.6
Payout (%)	28.3	27.9	22.7

Valuations

P/E (x)	31.2	27.3	22.3
P/BV (x)	7.1	5.9	4.9
EV/EBITDA (x)	22.2	18.5	14.2
Div. Yield (%)	0.9	1.0	1.0

Shareholding pattern (%)

As of	Jun-25	Mar-25	Jun-24
Promoter	71.6	71.6	71.6
DII	8.7	8.3	8.8
FII	11.9	12.1	11.7
Others	7.7	8.0	7.9

FII includes depository receipts

Increasing the indigenous portion in aircraft

HAL and GE signed an MoU to co-produce the F-414 engines in India, with an ambitious 80% technology transfer encompassing critical features like hot-section coatings, single-crystal turbine blades, and laser drilling techniques. Following this, technical and commercial discussions have been rigorous and ongoing. The breakthrough came in Jul'25, when HAL signed a Manufacturing License Agreement (MLA) with GE, formalizing the ToT structure and enabling local production of the F-414 engine. This ToT from the US to India is estimated to be worth ~USD1b and will result in the new fighter jet having an indigenous content of around 75%. This move lays the foundation for the indigenous production of high-thrust engines for upcoming fighter programs such as Tejas Mk 2 and AMCA, reducing import dependencies and enhancing long-term self-reliance.

Strengthening the space sector role by ToT for SSLV

HAL recently reached a critical milestone in its collaboration with ISRO by securing an INR5b transfer of technology (ToT) deal for the Small Satellite Launch Vehicle (SSLV). This agreement grants HAL full rights to build, own, market, and operate the SSLV, with ISRO providing hand-holding support over the next two years. Further emphasizing HAL's expanding role in India's space sector, the company played a vital part in the July 30 launch of the NASA-ISRO NISAR satellite by supplying essential components. In the long term, SSLV production will open new commercial avenues for HAL in the rapidly growing global small-satellite launch market, diversify its revenue base beyond aerospace and defense platforms, and position it as a strategic partner for domestic and international space customers. This move also aligns with India's ambition to expand its space economy to USD40b by 2040, giving HAL leverage on upcoming satellite constellation and space station projects.

Financial outlook

We project the overall revenue to record a CAGR of 24% over FY25-28, primarily driven by a scale-up in manufacturing revenue. We project its EBITDA margin to remain strong at 29.8%/28.6%/27.3% for FY26/FY27, fueled by indigenization efforts taken by the company as well as lower provisions. With an annual capex of INR40b/ INR50b/INR60b over FY26/FY27/FY28 and comfortable working capital, we expect its PAT to register a 17% CAGR over FY25-28. With improving revenue and stable margins, we expect the RoE/RoCE to remain comfortable, reaching 22.2%/22.6% by FY28.

Valuation and view

HAL is currently trading at 31.2x/27.3x FY26E/FY27E EPS. We maintain our estimates and **reiterate our BUY rating on the stock** with a revised TP of INR5,800 (earlier INR5,750) based on the average of DCF and 32x Sep'27E earnings.

Key risks and concerns

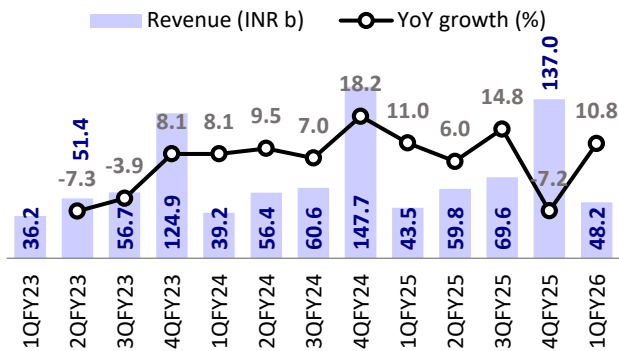
Key risks would include 1) slower-than-expected finalization of large platform orders, 2) further delays in deliveries of key components such as engines for Tejas Mk1A, 3) delays in payments from MoD, and 4) increased involvement of the private sector.

Consolidated - Quarterly Snapshot
(INR b)

Income Statement		FY25				FY26E				FY25	FY26E	FY26E	Est
Y/E March		1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var %
Net Sales		43.5	59.8	69.6	137.0	48.2	71.2	78.7	176.8	309.8	375.0	52.5	(8)
Change (%)		11.0	6.0	14.8	(7.2)	10.8	19.2	13.2	29.0	3.9	21.0	20.8	
Expenses		33.6	43.4	52.7	84.0	35.4	51.7	59.1	117.1	213.7	263.2	39.9	(11)
EBITDA		9.9	16.4	16.8	52.9	12.8	19.6	19.7	59.7	96.1	111.8	12.6	2
As of % Sales		22.8	27.4	24.2	38.6	26.6	27.5	25.0	33.8	31.0	29.8	24.0	
Depreciation		1.5	1.8	2.8	7.4	1.9	2.8	3.1	7.7	13.4	15.4	2.4	(22)
Interest		0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	200
Other Income		7.4	5.4	6.3	6.5	7.5	7.0	7.2	7.8	25.6	29.4	6.5	14
PBT pre EO items		15.8	20.0	20.4	52.0	18.4	23.8	23.8	59.7	108.2	125.8	16.8	10
Extra-ordinary Items		-	0.1	-	-	-	-	-	-	0.1	-	-	
PBT		15.8	20.1	20.4	52.0	18.4	23.8	23.8	59.7	108.3	125.8	16.8	10
Tax		1.5	5.1	6.0	12.4	4.7	6.0	6.0	15.1	25.0	31.8	4.2	11
Effective Tax Rate (%)		9.3	25.5	29.6	23.9	25.5	25.3	25.3	25.2	23.1	25.3	25.3	
MI & P/L Share of JV		0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.4	0.5	0.1	
Reported PAT		14.4	15.1	14.4	39.8	13.8	17.9	17.9	44.9	83.6	94.4	12.6	10
Adj PAT		14.4	15.0	14.4	39.8	13.8	17.9	17.9	44.9	83.6	94.4	12.6	10
Margin (%)		33.1	25.2	20.7	29.0	28.7	25.1	22.7	25.4	27.0	25.2	24.0	
Change (%)		76.5	21.7	14.1	(7.7)	(3.7)	18.7	24.1	12.8	38.4	13.0	(12.3)	

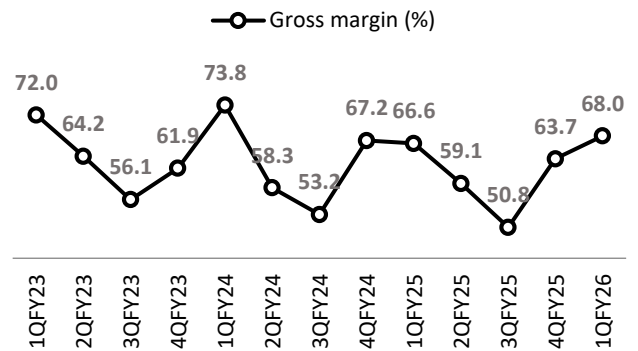
Key Exhibits

Exhibit 1: Revenue increased 11% YoY



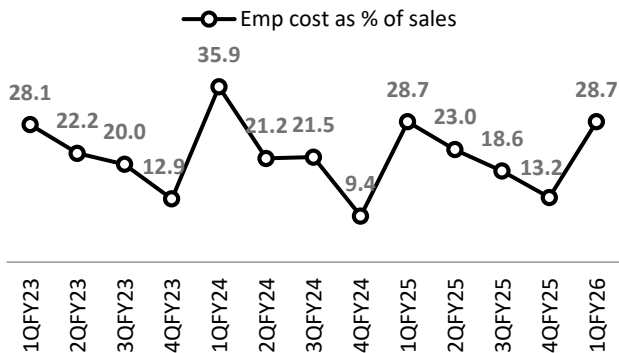
Source: MOFSL, Company

Exhibit 2: Gross margin expanded 140bp YoY



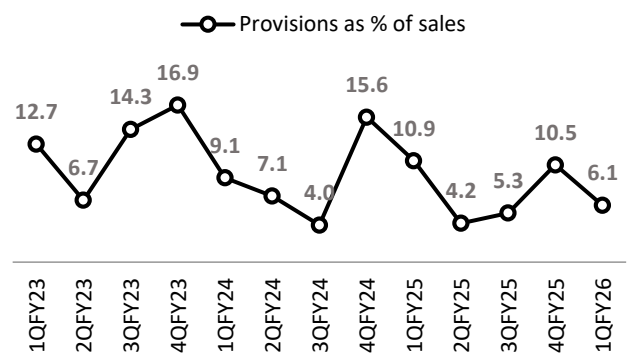
Source: MOFSL, Company

Exhibit 3: Employee costs as % of sales flat YoY



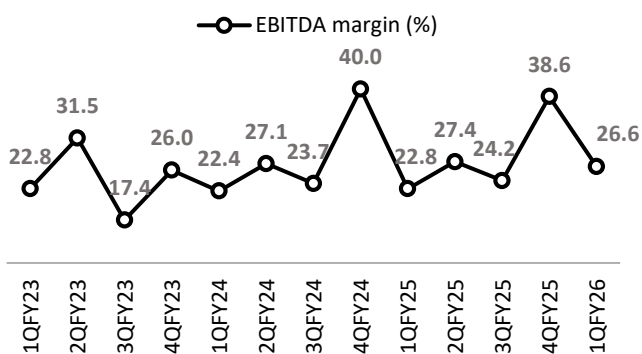
Source: MOFSL, Company

Exhibit 4: Provisions as % of sales declined YoY



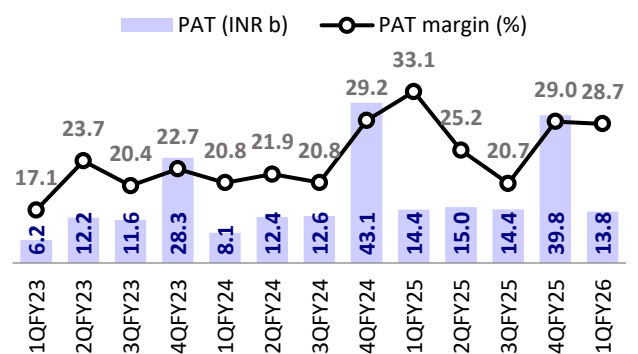
Source: MOFSL, Company

Exhibit 5: EBITDA margin expanded 380bp YoY



Source: MOFSL, Company

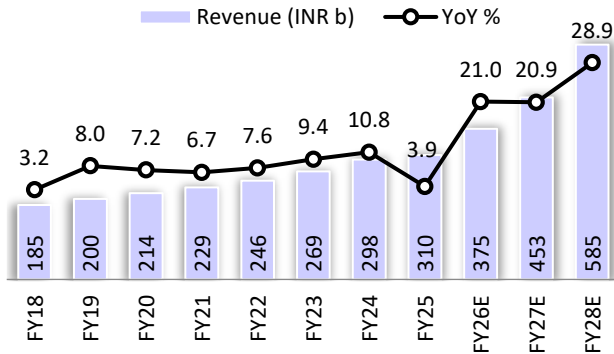
Exhibit 6: PAT margin at comfortable levels



Source: MOFSL, Company

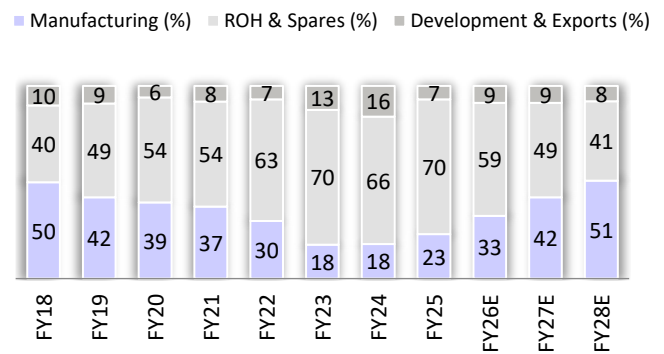
Financial outlook

Exhibit 7: We expect HAL's revenue to record a 24% CAGR over FY25-28



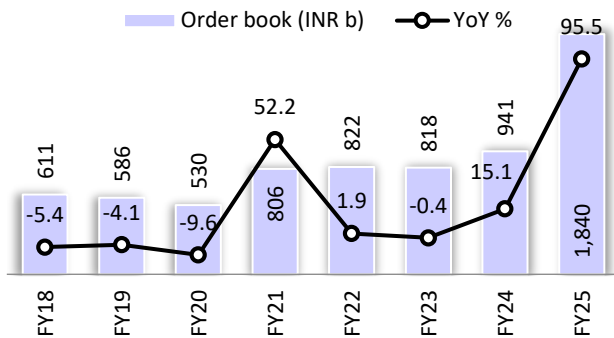
Source: Company, MOFSL

Exhibit 8: Share of manufacturing revenue likely to grow beyond FY25



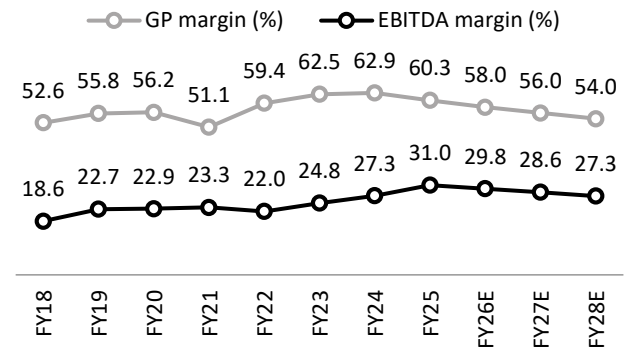
Source: Company, MOFSL

Exhibit 9: Order book stood at ~INR1.8t as of 31st Mar'25 on strong inflows



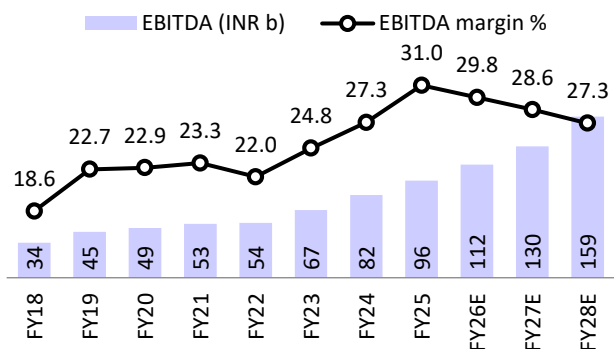
Source: Company, MOFSL

Exhibit 10: We expect the gross margin to come down as the share of manufacturing revenue starts increasing



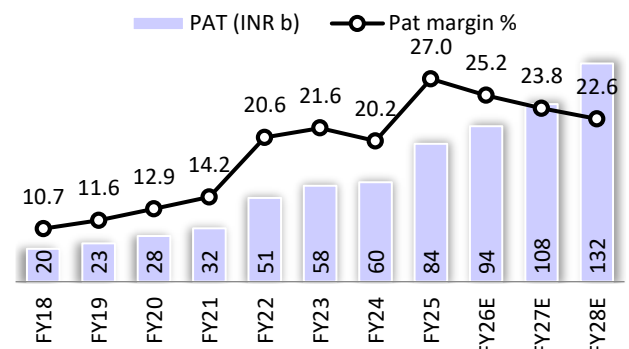
Source: Company, MOFSL

Exhibit 11: EBITDA to clock a CAGR of 18% over FY25-28



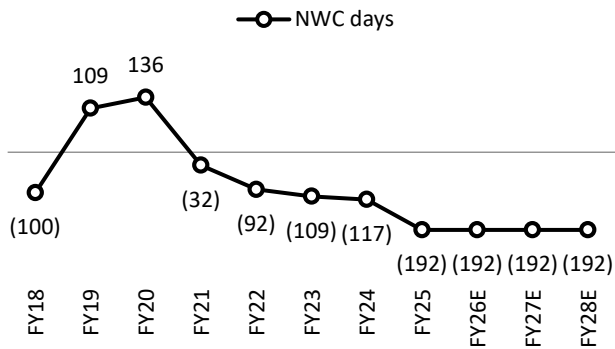
Source: MOFSL, Company

Exhibit 12: We expect a PAT CAGR of 17% over FY25-28



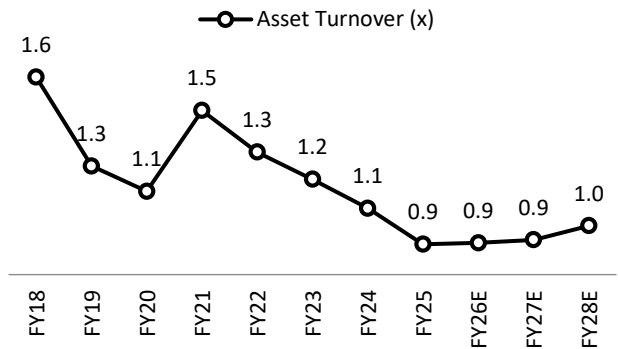
Source: MOFSL, Company

Exhibit 13: NWC days to remain at comfortable levels



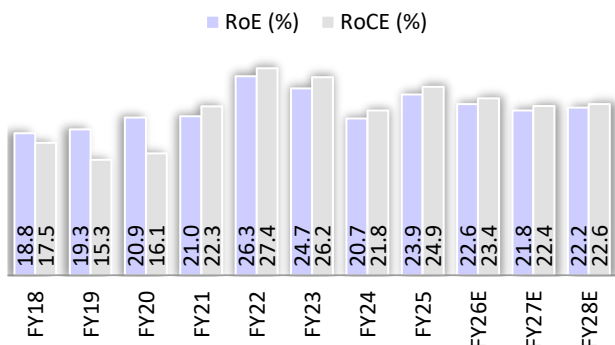
Source: MOFSL, Company

Exhibit 14: Asset turnover to remain comfortable



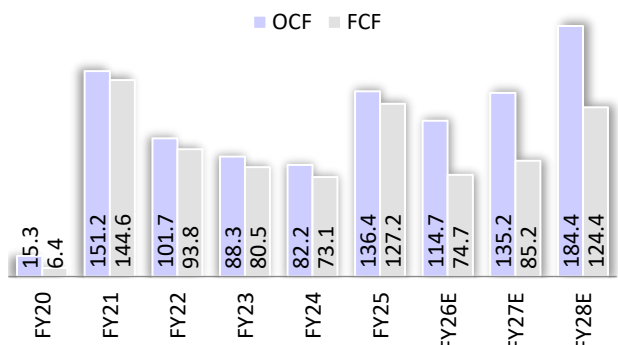
Source: MOFSL, Company

Exhibit 15: We expect RoE/RoCE to remain at ~22-24%



Source: MOFSL, Company

Exhibit 16: OCF/FCF to normalize beyond FY25 (INR b)



Source: MOFSL, Company

Financials and valuation

Consolidated Income Statement

(INR b)

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Net Sales	214	229	246	269	298	310	375	453	585
Change (%)	7.2	6.7	7.6	9.4	10.8	3.9	21.0	20.9	28.9
Raw Materials	94	112	100	101	111	123	157	200	269
Gross Profit	121	117	146	168	188	187	217	254	316
Employee Cost	48	43	46	49	53	57	61	71	81
Other Expenses	24	20	46	52	53	34	44	54	75
Total Expenditure	165	175	192	202	217	214	263	324	425
% of Net Sales	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7
EBITDA	49	53	54	67	82	96	112	130	159
Margin (%)	22.9	23.3	22.0	24.8	27.3	31.0	29.8	28.6	27.3
Depreciation	10	12	11	18	14	13	15	19	23
EBIT	39	42	43	49	68	83	96	111	136
Interest	3	3	1	1	0	0	0	0	0
Other Income	3	4	10	17	19	26	29	33	40
PBT Before EO Exp	39	43	52	65	86	108	126	144	176
EO Items	1	0	0	0	16	0	0	0	0
PBT After EO Exp	40	43	52	65	102	108	126	144	176
Tax	11	10	1	7	26	25	32	36	45
Rate (%)	28.4	24.3	2.8	10.5	30.2	23.1	25.3	25.3	25.3
MI & P/L of Asso. Cos	0	0	-0	0	0	0	0	1	1
Reported PAT	29	32	51	58	76	84	94	108	132
Change (%)	23.8	12.6	56.5	14.7	30.8	9.8	12.9	14.2	22.7
Adjusted PAT	28	32	51	58	60	84	94	108	132
Change (%)	18.7	17.4	56.6	14.7	3.6	38.4	13.0	14.2	22.7

Consolidated Balance Sheet

(INR b)

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Share Capital	3	3	3	3	3	3	3	3	3
Reserves	129	151	190	232	288	346	414	492	594
Net Worth	132	154	193	236	291	350	417	495	598
Minority Interest	0	0	0	0	0	0	0	0	0
Loans	59	0	0	0	0	0	0	0	0
Differed Tax Liability	-5	-1	-6	-11	-15	-16	-16	-16	-16
Capital Employed	187	154	188	225	277	334	402	480	582
Gross Fixed Assets	122	132	140	159	172	184	224	274	334
Less: Depreciation	48	60	72	90	104	118	133	152	175
Net Fixed Assets	74	72	68	68	67	67	91	123	160
Capital WIP	20	19	25	19	25	31	31	31	31
Investments	10	11	14	15	16	18	18	18	18
Curr. Assets	424	415	472	559	658	932	1,125	1,352	1,719
Inventory	194	167	143	121	132	217	262	317	409
Debtors	191	141	125	141	165	205	249	301	388
Cash & Bank Balance	3	72	143	203	264	382	459	547	681
Loans & Advances	1	0	0	0	0	0	0	0	0
Other Current Assets	35	35	61	93	96	128	155	187	241
Current Liab. & Prov.	341	363	391	436	490	713	863	1,043	1,345
Creditors	41	23	26	31	34	51	62	75	96
Other Liabilities	237	328	302	324	364	559	676	818	1,055
Provisions	63	13	63	81	92	103	124	151	194
Net Current Assets	83	51	81	123	169	219	262	309	374
Application of Funds	187	154	188	225	277	334	402	480	582

Financials and valuation

Ratios

Y/E March	2,020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Basic (INR)	43.1	48.5	76.0	87.1	114.0	125.1	141.2	161.2	197.9
Adjusted EPS	41.3	48.5	76.0	87.1	90.3	125.0	141.2	161.2	197.9
Growth (%)	18.7	17.4	56.6	14.7	3.6	38.4	13.0	14.2	22.7
Cash EPS	56.3	65.8	92.6	113.8	111.3	145.0	164.2	189.3	232.2
Book Value	198.1	230.6	288.8	352.5	435.7	523.1	624.3	740.5	893.4
DPS	20.0	15.0	20.0	25.0	29.5	38.0	40.0	45.0	45.0
Payout (incl. Div. Tax.)	48.5	30.9	26.3	28.7	32.7	30.4	28.3	27.9	22.7
Valuation (x)									
P/E (standalone)	106.6	90.8	58.0	50.6	48.8	35.3	31.2	27.3	22.3
Cash P/E	78.3	66.9	47.6	38.7	39.6	30.4	26.8	23.3	19.0
EV/EBITDA	61.2	53.9	51.8	41.1	32.9	26.7	22.2	18.5	14.2
EV/Sales	14.0	12.6	11.4	10.2	9.0	8.3	6.6	5.3	3.9
Price/Book Value	22.2	19.1	15.3	12.5	10.1	8.4	7.1	5.9	4.9
Dividend Yield (%)	0.5	0.3	0.5	0.6	0.7	0.9	0.9	1.0	1.0
Profitability Ratios (%)									
RoE	20.9	21.0	26.3	24.7	20.7	23.9	22.6	21.8	22.2
RoCE	16.1	22.3	27.4	26.2	21.8	24.9	23.4	22.4	22.6
RoIC	16.1	44.7	137.4	648.5	NA	NA	NA	NA	NA
Turnover Ratios									
Debtors (Days)	325	225	185	191	202	242	242	242	242
Inventory (Days)	331	266	213	165	162	255	255	255	255
Creditors. (Days)	70	36	38	42	42	60	60	60	60
Asset Turnover (x)	1.1	1.5	1.3	1.2	1.1	0.9	0.9	0.9	1.0
Leverage Ratio									
Net Debt/Equity (x)	0.4	-0.5	-0.7	-0.9	-0.9	-1.1	-1.1	-1.1	-1.1

Consolidated Cash Flow Statement

Y/E March	2,020	2021	2022	2023	2024	2025E	2026E	2027E	(INR b) 2028E
PBT before EO Items	40	43	52	65	102	109	126	144	177
Add : Depreciation	10	12	13	24	14	14	15	19	23
Interest	3	2	1	0	0	0	0	0	0
Less : Direct Taxes Paid	18	9	10	28	20	35	32	36	45
(Inc)/Dec in WC	32	-92	-16	-5	31	-48	-34	-41	-69
Others	12	10	30	22	16	2	-29	-33	-40
CF from Operations	15	151	102	88	82	136	115	135	184
(Inc)/Dec in FA	-9	-7	-8	-8	-9	-9	-40	-50	-60
Free Cash Flow	6	145	94	81	73	127	75	85	124
(Pur)/Sale of Investments	-1	-1	-115	-47	-64	-116	0	0	0
Others	-4	-5	-5	-3	9	17	29	33	40
CF from Investments	-13	-12	-128	-57	-64	-108	-11	-17	-20
(Inc)/Dec in Net Worth	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	18	-59	-0	0	0	0	0	0	0
Less : Interest Paid	3	2	1	1	0	0	0	0	0
Dividend Paid	13	10	13	17	20	25	27	30	30
Others	-0	-0	-0	-0	-0	-0	0	0	0
CF from Fin. Activity	1	-71	-15	-17	-20	-26	-27	-30	-30
Inc/Dec of Cash	3	69	-41	14	-2	3	77	88	134
Add: Beginning Balance	0	3	71	31	44	43	382	459	547
Other Bank Balances	0	0	113	159	222	336	0	0	0
Closing Balance	3	72	143	203	264	382	459	547	681

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

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
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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