

Hindustan Aeronautics Ltd.

February 13, 2025

BUY

CMP: INR 3,600 | Target Price: INR 5,000 | Potential Upside: 39.0%

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✗

Company Info

BB Code	HNAL IN EQUITY		
Face Value (INR)	5.0		
52 W High/Low (INR)	5,675/2,826		
Mkt Cap (Bn)	INR 2,405/\$ 27.6		
Shares o/s (Mn)	668.8		
3M Avg. Daily Volume	16,83,479		

Change in CEBPL Estimates

	FY26E			FY27E		
	INR Bn	New	Old Dev. (%)	New	Old Dev. (%)	
Revenue	386	390	(1.0)	439	444	(1.1)
EBITDA	119	121	(2.3)	137	139	(1.8)
EBITDAM %	30.7	31.1	-39bps	31.1	31.3	-23bps
PAT	92	94	(2.8)	105	107	(2.2)
EPS	137.0	141.0	(2.8)	156.6	160.1	(2.2)

Actual vs Consensus

INR Mn	Q3FY25A	Consensus Est.	Dev. %
Revenue	69,573	70,121	(0.8)
EBITDA	16,825	17,106	(1.6)
EBITDAM %	24.2	24.4	(21)
PAT	14,398	13,236	8.8

Key Financials

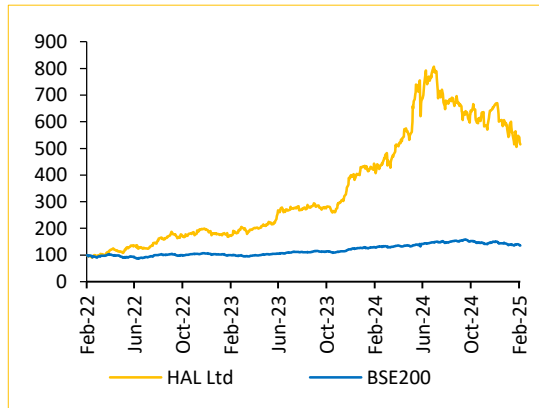
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	286.0	322.8	364.7	411.1	466.4
YoY Growth (%)	11.7	12.9	13.0	12.7	13.5
EBITDA	66.8	97.4	105.7	118.6	136.6
EBITDAM (%)	24.8	32.1	30.9	30.7	31.1
Adjusted PAT	58.2	76.2	82.7	91.6	104.7
EPS	87.1	113.7	123.1	137.0	156.6
ROE (%)	24.7	26.2	24.5	23.6	23.3
ROCE (%)	20.8	28.6	26.1	25.4	25.3
PE(x)	41.3	31.6	29.1	26.3	23.0
Price to BV (x)	10.2	8.3	7.1	6.2	5.3

Shareholding Pattern (%)

	Dec-24	Sep-24	Jun-24
Promoters	71.64	71.64	71.64
Fills	12.26	11.85	11.68
DlIs	8.13	8.37	8.81
Public	7.95	8.13	7.86

Relative Performance (%)

YTD	3Yr.	2Yr.	1Yr.
BSE 200	38.0	36.3	6.4
HNAL	421.6	199.4	26.4



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Decent Q3 performance; Revenue & EBITDA in-line with PAT beating consensus

- Revenue for Q3FY25 came at INR 69.6 Bn (vs Consensus Est. of INR 70.1 Bn), up 14.8% YoY and up 16.4% QoQ.
- EBITDA for Q3FY25 came at INR 16.8 Bn (vs Consensus Est. INR 17.1 Bn), up 17.2% YoY and up 2.6% QoQ. The EBITDA Margin came at 24.2%, improved 50 bps YoY and contracted 326 bps QoQ (vs CEBPL Est. of 24.4%).
- PAT for Q3FY25 came INR 14.4 Bn (vs Consensus Est. of INR 13.2 Bn), up 14.1% YoY and down 4.7%. PAT Margin decreased by 12 bps YoY and 458 bps QoQ, reaching 20.7% (vs CEBPL Est. of 18.8%).

ROH segment: A cornerstone of HNAL's stable revenue growth: HNAL derives the majority of its revenue (60-70%) from the Repair and Overhaul (ROH) segment, which is expected to grow at a CAGR of 8-9%. The Indian Air Force (IAF) is modernizing its Su-30MKI fleet through a INR 60,000 crore indigenization plan, upgrading 84 aircraft with 78% domestic production. This initiative includes Indian-made avionics, AESA radar, mission computers, and IRST systems, positioning HNAL as the primary beneficiary of the program. HNAL is leading the Su-30MKI upgrade efforts and collaborating with the Gas Turbine Research Establishment (GTRE) on engine modifications. These advancements will reduce dependence on foreign support, extend aircraft lifespan, and are expected to drive significant order inflow in the future.

Resolution of GE Engine program could lead to material upside for the stock:

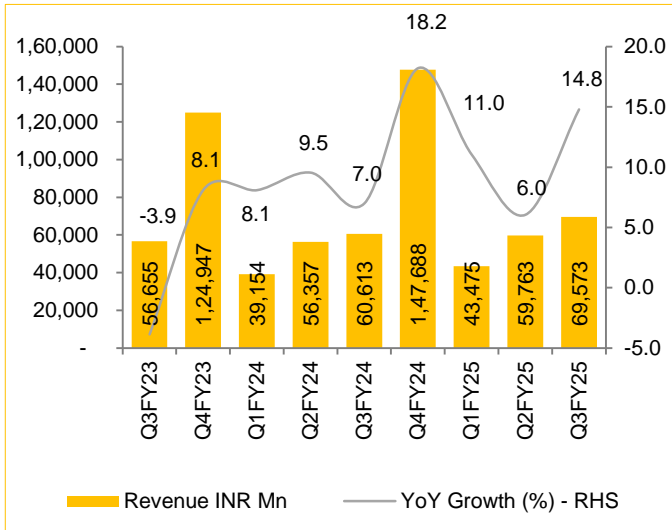
Despite holding a strong order book of INR 941 Bn in end of Mar-24 (~2.9x of TTM sales), we will closely monitor its near-term performance due to execution challenges and supply chain issues. HNAL has faced delays in the delivery of Tejas Mk-1A variant fighter aircraft, impacting order fulfillment. Delays in the GE F404-IN20 variant engine program, which is now more than a year behind schedule, has hindered the company's ability to meet these high growth expectations in the manufacturing segment. This delay has led to a revision in market expectations regarding HNAL's manufacturing revenue growth. However, once the GE Engine issue is resolved, we anticipate an order for an additional 97 Tejas Mk-1A aircraft from the Indian Air Force (IAF), which could substantially increase HNAL's order book and drive long-term growth.

View & Valuation: We project HNAL Revenue, EBITDA, and PAT to grow at a CAGR of 13.0%, 12%, and 11.3%, respectively, over FY24-27E. As a result, we have revised our earnings estimates for FY26E and FY27E, lowering EPS projections by 2.8% and 2.2%, respectively due to delays in F404-IN20 standard engine. Based on these adjustments, we maintain our "BUY" recommendation and revise our target price to INR 5,000, implying a valuation of 32x FY27E EPS (Earlier 35x). We will closely monitor execution progress, and any improvement in the GE F404-IN20 variant engine delivery timeline could lead to a reassessment of our target price and valuation multiples.

Particulars	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net Sales (incl OI)	69,573	60,613	14.8	59,763	16.4
Material Exp	34,210	28,349	20.7	24,459	39.9
Gross Profit	35,363	32,264	9.6	35,304	0.2
Employee Exp	12,962	13,005	(0.3)	13,753	(5.8)
Other Exp	5,576	4,906	13.7	5,152	8.2
EBITDA	16,825	14,353	17.2	16,400	2.6
Depreciation	2,771	2,122	30.6	1,758	57.6
EBIT	14,054	12,232	14.9	14,642	(4.0)
Other Income	6,314	4,600	37.3	5,424	16.4
Interest Cost	1	4	(77.8)	0	300.0
PBT	20,368	16,828	21.0	20,066	1.5
EO Items	54	67	NA	161	NA
Tax	6,024	4,279	41	5,122	17.6
RPAT	14,398	12,615	14.1	15,105	(4.7)
APAT	14,360	12,565	14.3	14,985	(4.2)
Adj EPS (INR)	21.5	18.9	14.1	22.6	(4.7)

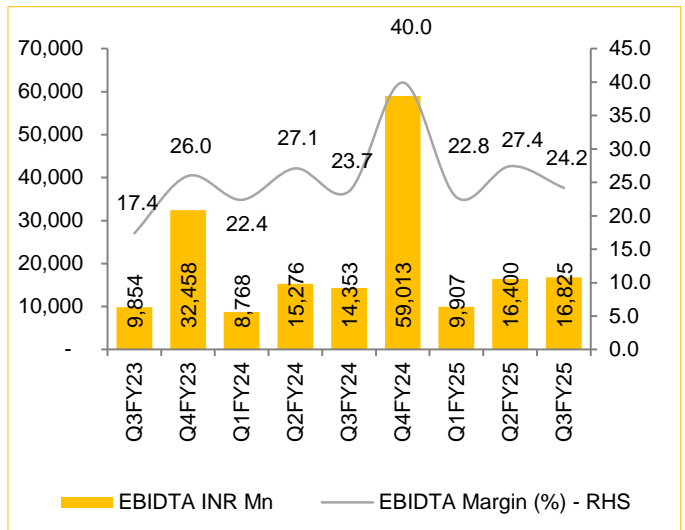
Margin Analysis	Q3FY25	Q3FY24	YoY (bps)	Q2FY25	QoQ (bps)
Gross Margin (%)	50.8	53.2	(240)	59.1	(825)
Emp. % of Sales	18.6	21.5	(283)	23.0	(438)
Other % of Sales	8.0	8.1	(8)	8.6	(60)
EBITDA Margin (%)	24.2	23.7	50	27.4	(326)
Tax Rate (%)	29.6	25.4	415	25.5	405
APAT Margin (%)	20.6	20.7	(9)	25.1	(443)

Net Revenue up by 14.8% YoY basis



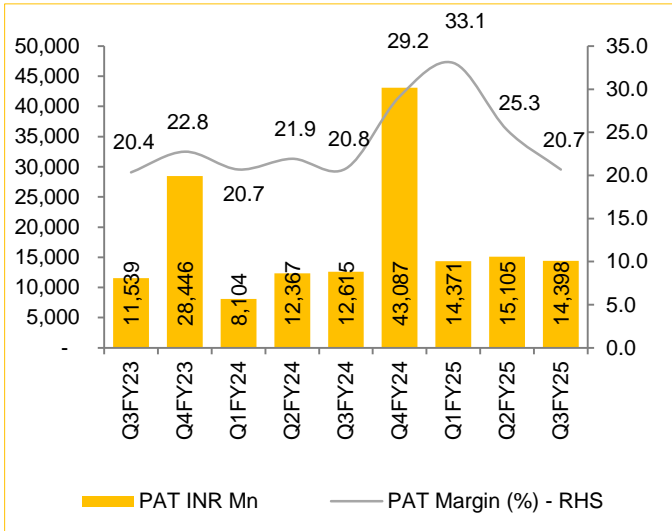
Source: Company, CEBPL

EBITDA Margins expanded 50bps



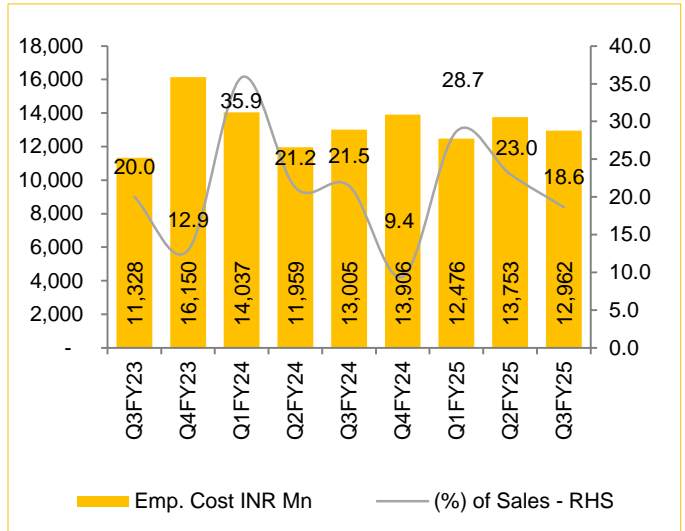
Source: Company, CEBPL

RPAT up by 14.1% on YoY basis



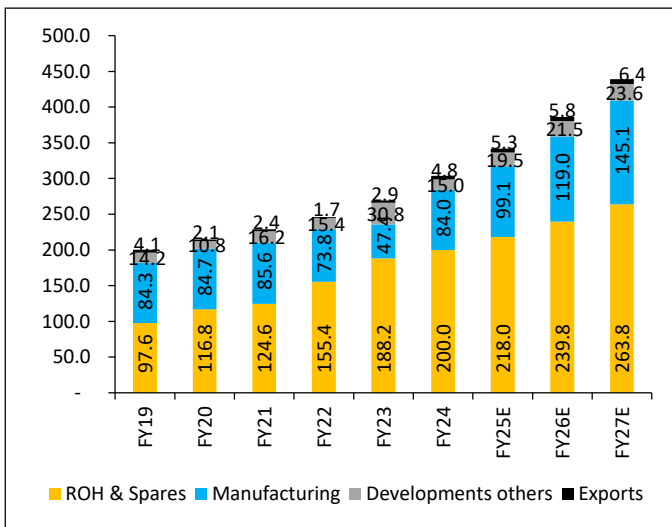
Source: Company, CEBPL

Reducing employee cost supports margin



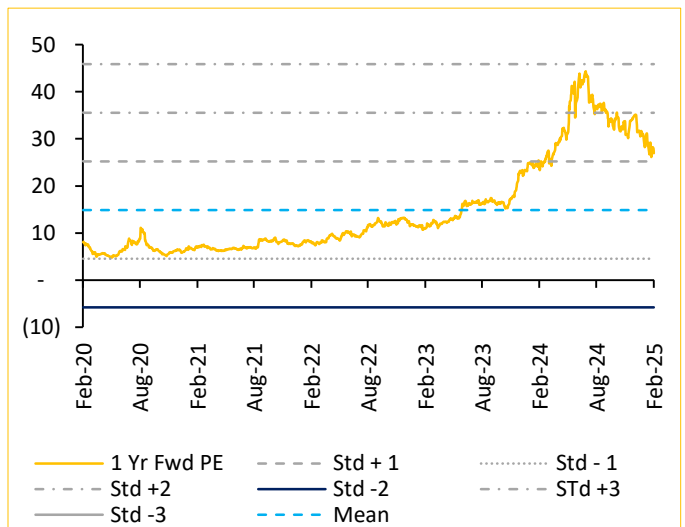
Source: Company, CEBPL

Revenue Mix (%) values are in Bn.



Source: Company, CEBPL

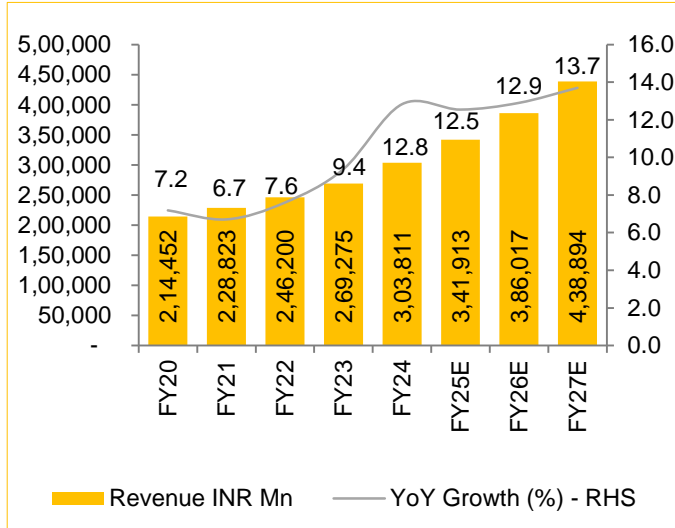
One year forward PE band



Source: Company, CEBPL

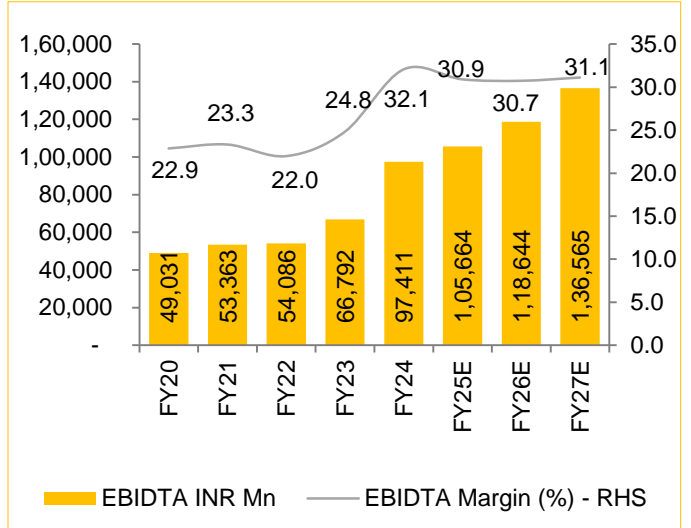
*All figures are in INR Million

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



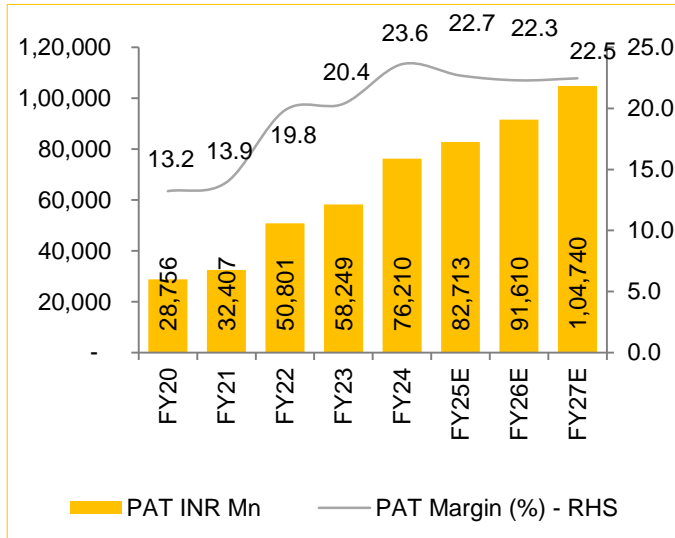
Source: Company, CEBPL

EBITDAM are expected to fall short of guidance in FY25



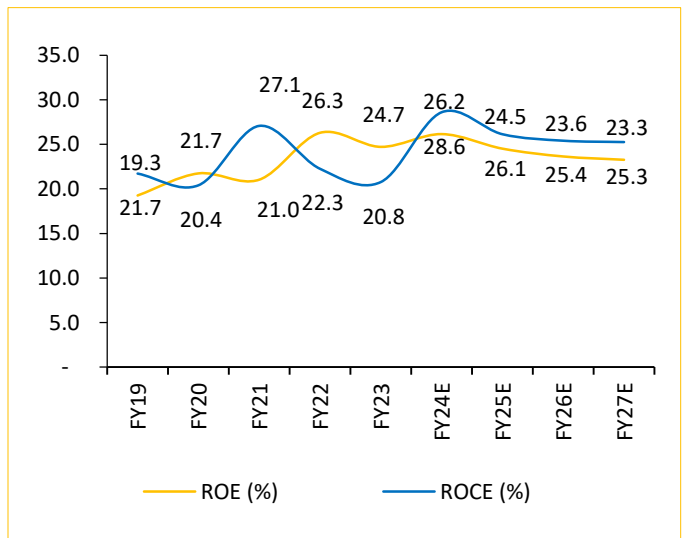
Source: Company, CEBPL

PAT expected to grow 11.2% 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	2,05,161	2,29,817	2,61,650
EBITDA	66,792	97,411	1,05,664	1,18,644	1,36,565
Depreciation	17,847	14,072	17,512	20,212	22,912
EBIT	48,945	83,339	88,152	98,433	1,13,653
Interest Expense	580	321	417	501	601
Other Income	16,701	18,966	22,759	25,035	27,539
Reported PAT	58,249	76,210	82,713	91,610	1,04,740
EPS	87.1	114.0	123.7	137.0	156.6
NOPAT	43,816	62,115	65,674	73,332	84,672

Source: Company, CEBPL

Balance Sheet (Consolidated in INR Mn)

Balance Sheet	FY23	FY24	FY25E	FY26E	FY27E
Net Worth	2,35,759	2,91,418	3,37,348	3,87,495	4,50,102
Total Debt	-	-	-	-	-
Other Liabilities & Provisions	1,28,006	1,26,290	1,53,338	1,71,808	1,93,829
Total Net Worth & Liabilities	3,63,765	4,17,709	4,90,686	5,59,303	6,43,931
Net Fixed Assets	57,986	57,802	70,153	69,942	67,030
Capital Work in Progress	6,369	9,369	9,837	10,329	10,846
Investments	28,345	13,897	32,382	36,116	40,441
Cash & Bank Balance	2,03,166	2,64,316	2,93,729	3,47,174	3,97,209
Loans & Advances & Other Assets	60,646	69,817	71,524	79,866	89,566
Net Current Assets	2,10,419	2,66,824	3,06,789	3,63,050	4,36,048
Total Assets	3,63,765	4,17,709	4,90,686	5,59,303	6,43,931
Capital Employed	2,35,759	2,91,418	3,37,348	3,87,495	4,50,102
Invested Capital	32,593	27,102	43,620	40,320	52,893
Net Debt	(2,03,166)	(2,64,316)	(2,93,729)	(3,47,174)	(3,97,209)
FCFF	73,099	79,091	60,216	89,496	85,276

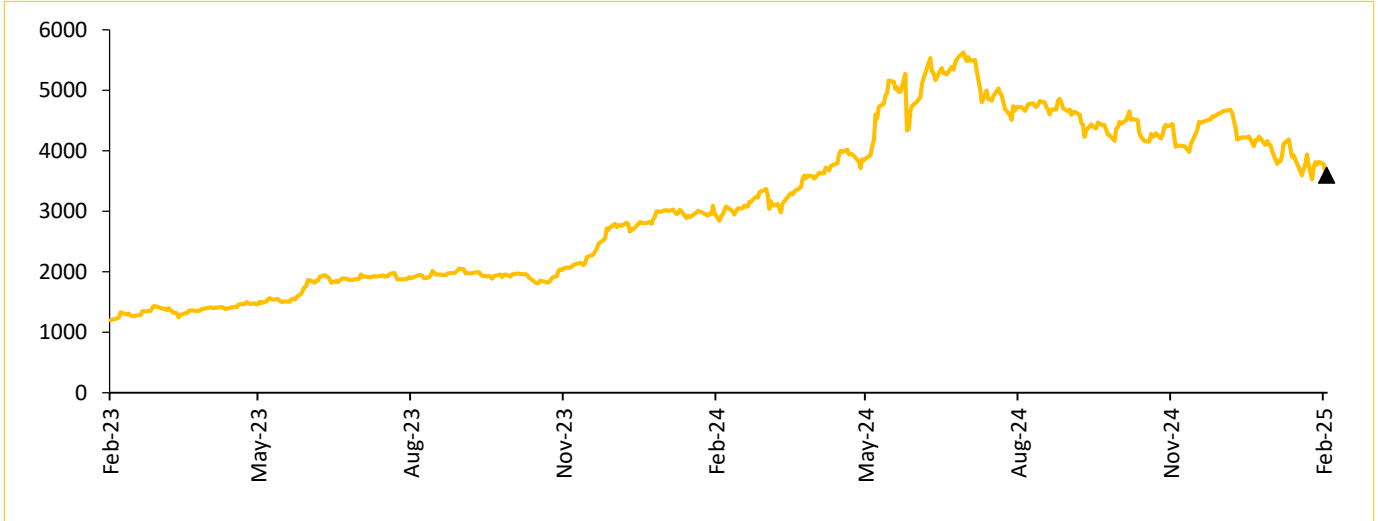
Source: Company, CEBPL

Cash Flow Statement (Consolidated in INR Mn)

Cash Flows	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	80,973	82,228	90,079	1,09,496	1,05,276
Capex	(7,874)	(3,137)	(29,863)	(20,000)	(20,000)
FCF	73,099	79,091	60,216	89,496	85,276
Cash flows from Investing	(57,367)	(50,379)	(50,514)	(32,556)	(34,528)
Cash flows from Financing	(17,313)	(19,989)	(10,153)	(23,495)	(20,713)
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenue	9.4	12.8	12.5	12.9	13.7
EBITDA	23.5	45.8	8.5	12.3	15.1
PAT	14.7	30.8	8.5	10.8	14.3
Margin Ratios (%)					
EBITDA	24.8	32.1	30.9	30.7	31.1
PAT	21.6	25.1	24.2	23.7	23.9
Performance Ratios (%)					
OCF/EBITDA (X)	1.2	0.8	0.9	0.9	0.8
OCF/IC	248.4	303.4	206.5	271.6	199.0
ROE	24.7	26.2	24.5	23.6	23.3
ROCE	20.8	28.6	26.1	25.4	25.3
Turnover Ratios (Days)					
Inventory (days)	165	159	160	158	155
Debtors (days)	64	55	55	54	53
Other Current Assets (days)	199	225	226	230	234
Payables (days)	42	41	40	38	37
Other Current Liab & Provns (days)	375	395	387	389	372
Cash Conversion Cycle (days)	10	3	14	15	32
Financial Stability Ratios (x)					
Net Debt/Equity	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Net Debt/EBITDA	(3.0)	(2.7)	(2.8)	(2.9)	(2.9)
Interest Coverage	84.4	259.5	211.2	196.5	189.1
Valuation Metrics					
Fully Diluted Shares (Mn)	669	669	669	669	669
Price (INR)	3600	3600	3600	3600	3600
Market Cap(INR Mn)	24,07,590	24,07,590	24,07,590	24,07,590	24,07,590
PE(x)	41	31.6	29.1	26.3	23.0
EV (INR Mn)	22,04,424	21,43,274	21,13,861	20,60,416	20,10,381
EV/EBITDA (x)	33	22	20	17	15
Book Value (INR/share)	353	436	504	579	673
Price to BV (x)	10.2	8.3	7.1	6.2	5.3
EV/OCF (x)	27	26	23	19	19

Source: Company, CEBPL

Historical Price Chart: Hindustan Aeronautics Limited



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