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India | Equity Research | Sector Update

Defence

HAL to benefit the most from the recently issued AoNs; order inflow for BEL continues

The Defence Acquisition Council (DAC) has accorded the Acceptance of Necessity (AoN) to nine capital acquisition proposals worth INR 450bn covering all the three armed forces. We believe proposals such as Dhruvastra are likely to be fast tracked through emergency procurement, resulting in orders towards the end of the year. We see HAL to be the major beneficiary from the AoNs for 12 nos. Sukhoi-MKI aircraft and avionics upgradation of Dornier aircraft. Besides, Bharat Electronics has received orders worth INR 30bn. We continue to see the pace of AoNs and ordering not slackening even in the pre-election year. We maintain BEL (**BUY**; TP: INR 150), HAL (**ADD**; TP: INR 4,350) and BDL (**BUY**; TP: INR 1,325) as our preferred picks in the defence space.

Fresh round of AoNs spread across services

The DAC has accorded AoN to nine capital acquisition proposals worth INR 450bn under BUY (Indian)/BUY (IDDM) categories for: 1) Acquisition of 12 additional Su-30MKI fighter jets from HAL at an estimated INR 120bn; 2) avionics upgradation of Dornier aircraft for improving the operating accuracy and reliability. We estimate the opportunity at INR 50-60bn spread over a few of years, benefitting HAL; 3) procurement of Dhruvastra (HELINA) ATGM for use on ALH Mk-IV or Rudra helicopters. We peg this value at INR 5-6bn and the initial ordering might be swift under emergency procurement, followed by larger quantities later. BDL is likely to be the primary beneficiary; 4) procurement of next-gen survey vessels for Indian Navy. We peg the opportunity at INR 25-30bn (5nos) and expect GRSE and other shipyard to benefit; 5) procurement of high-mobility gun towing vehicles to facilitate the swift mobilisation and deployment of artillery guns and radars. Recently, Indian Army ordered 4x4 Field Artillery Tractor (FAT) and 6x6 Gun towing vehicle- both featuring in the Ministry of Defence's (MoD) positive indigenisation list- from Ashok Leyland; 6) procurement of light armoured multipurpose vehicles. We peg the potential order size at 800 units at the total cost of INR 8-10bn; and 7) acquisition of integrated surveillance and targeting system. We expect this opportunity for drones. Furthermore, the Defence Minister (Rajnath Singh) also emphasised the aspiration of aiming for 60-65% indigenous content rather than a threshold of 50% for IDDM projects.

Tickle down benefits for BEL likely apart from new orders worth INR 30bn

BEL has received an order of INR 21.2bn (22% of total order value) from Cochin Shipyard Ltd for supply of various equipment consisting of sensors, weapon equipment, fire control systems and communication equipment for 6nos. Nex-gen Missile Vehicles (NGMV). Besides, the company has also received additional orders worth INR 8.9bn in the past 20 days pertaining to the upgrade of Akash Missiles with RF seeker, Inertial Navigation System and upgrade of AFNET SATCOM N/W. This takes total order inflow thus far in FY24 to INR 143.8bn. We also expect tickle down benefits to BEL from the currently issued AoN for procurement of Su-30 MKI, avionics upgradation of Dornier aircraft, procurement of Dhruvastra and nex-gen survey vessels.

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Astra Microwave (BUY)

BEL (BUY)

BDL (BUY)

Solar industries (BUY)

HAL (ADD)

MIDHANI (HOLD)

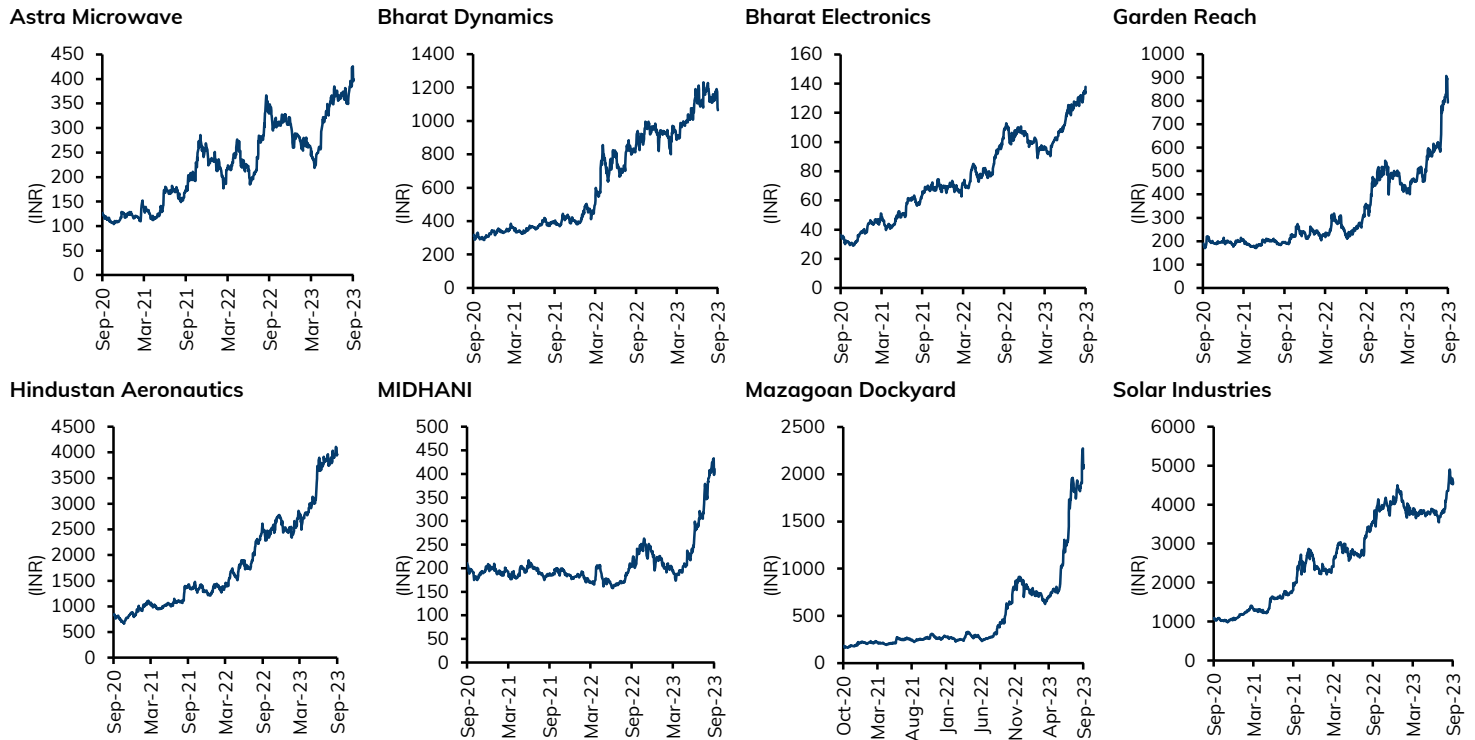
GRSE (SELL)

MDSL (SELL)

Outlook: Manufacturing orderbook accretion for HAL likely

BEL's order inflow has been robust and the company has already achieved more than 70% of the targeted order accretion for FY24. Additionally, we expect orders worth INR 45bn for fuses from the Indian Army and INR 25-30bn from GRSE/Goa Shipyard pertaining to next-gen offshore patrol vessels in H2FY24. In case of HAL, the AoN for 12nos. Su-30MKI implies the first major manufacturing order for FY24. We remain positive on defence space with BEL (**BUY**; TP: INR 150), HAL (**ADD**; TP: INR 4,350) and BDL (**BUY**; TP: INR 1,325) as our preferred picks in the space.

Price charts



Source: Bloomberg

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