

**Q4FY24 Performance Update:** Revenue for the quarter increased to Rs 147.7 billion, marking an impressive 18.2% year-over-year (YoY) jump and a staggering 143.7% surge quarter-over-quarter (QoQ) from Rs 124.9 billion in the same period last year. This exceptional growth was fueled by the successful execution of major orders, including Dornier aircraft, Twin Seater LCA Tejas, and Tejas Mk-1A. Gross profit soared by 28% YoY, hitting Rs 99.2 billion, thanks to a significant increase in IOC contract value, which added Rs 15 billion in Q4. This pushed the gross margin up by 524 basis points (bps) YoY to a remarkable 67.2%, well above our estimate of 58.5%. EBITDA skyrocketed by 82% YoY to Rs 59.1 billion, far exceeding our expectations of Rs 33.4 billion. The EBITDA margin improved by an astounding 1,398 bps YoY to 40%, driven by stringent cost control measures. Profit after tax (PAT) saw a spectacular jump of 51.5% YoY, reaching Rs 43.1 billion, beating our estimates of Rs 28.8 billion. This jump was propelled by higher other income and lower interest costs, with PAT margins standing strong at 29.2%, an improvement of 641 bps.

- A strategic shift from Local to Global player:** The company signed MoU with Western giants like Airbus for establish an integrated MRO services & SAFRAN to produce LEAP (Leading Edge Aviation Propulsion, powering Airbus A320 Neo family and Boeing 737 Max) engine Forgings at its Foundry & Forge facility. They are also going to co-design and co-produce the next generation to carter Indian IMRH & DBMRH program and global demand. HAL is also in advance talks with General Electric to setup GE F-404 engine manufacturing to carter local as well as International demand. 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.
- Tejas Mk-1A & Su-30MKI will be a part of major manufacturing revenue during FY25-28E:** In the recent past, the company delivered the first Tejas Mk-1A fighter jet to the defense forces and expects to complete the delivery of all 83 Tejas Mk-1A fighter jets by 2029. The production capacity at HAL's facility in Bengaluru is 16 LCA Mk-1A jets annually. However, it has begun setting up a third production line in Nashik to increase the capacity to 24 jets per year starting from FY26. Additional acquisition plans are underway to potentially place orders for an additional 97 Tejas Mk-1A fighter jets by this financial year. Additionally, the MoD placed an order for 12 Su-30MKI jets worth over Rs 115bn last year. We expect that in the near future, the majority of our manufacturing revenue will come from these two platforms.
- View and valuation:** We have a bullish outlook on HAL, given its strong market position and limited competition from the private sector, largely due to the high capital requirements and lengthy development timelines in this industry. HAL's strategic diversification into the civilian sector and anticipation of major future orders for platforms like LCA Tejas Mk-1A, LCA Tejas Mk-2, LUH, LCH, Su-30, and HTT-40 in the near to medium term further bolster its growth prospects. The company is strategically positioned as the sole domestic supplier and has formed valuable collaborations with industry giants such as Safran, Airbus, and GE. Moreover, HAL's impressive order book, standing at approximately Rs.940 billion—about 3.1 times the FY24 revenue—reinforces its robust growth narrative. Given these strengths, we rate the stock as **"BUY"** with a target price of Rs.5,042, based on a 38x of FY26E EPS. This valuation reflects the expected influx of new orders like Tejas Mk-1A, Sukhoi-30MKI upgrades, ALH Dhruv helicopters, and various aerospace structures for PSLV and GSLV, along with a sharp focus on export opportunities.

## Quarterly performance

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net Sales (incl OOI)	147,688	124,947	18.2	60,613	143.7
Material Exp	48,482	47,561	1.9	28,349	71.0
Gross Profit	99,206	77,385	28.2	32,264	207.5
Employee Exp	13,906	16,150	(13.9)	13,005	6.9
Other Exp	26,287	28,777	(8.7)	4,906	435.8
EBITDA	59,013	32,458	81.8	14,353	311.1
Depreciation	6,440	10,556	(39.0)	2,122	203.5
EBIT	52,573	21,902	140.0	12,232	329.8
Other Income	5,573	7,222	(22.8)	4,600	21.2
Interest Cost	314	553	(43.2)	4	8,625.0
PBT	57,832	28,571	102.4	16,828	243.7
EO Items (Adj For Tax)	118	-	NA	67	NA
Tax	14,863	125	11,819	4,279	247.3
RPAT	43,087	28,446	51.5	12,615	241.5
APAT	43,087	28,417	51.6	12,615	241.5
Adj EPS (Rs)	64.4	42.5	51.6	18.9	241.5
<b>Margin Analysis</b>	<b>Q4FY24</b>	<b>Q4FY23</b>	<b>YoY (bps)</b>	<b>Q3FY24</b>	<b>QoQ (bps)</b>
Gross Margin (%)	67.2	61.9	524	53.2	1,394
Employee Exp. % of Sales	9.4	12.9	(351)	21.5	(1,204)
Other Op. Exp % of Sales	17.8	23.0	(523)	8.1	970
EBITDA Margin (%)	39.96	26.0	1,398	23.7	1,628
Tax Rate (%)	25.7	0.4	2,526	25.4	27
APAT Margin (%)	29.2	22.7	643	20.8	836

Source: Company, CEBPL

May 18, 2024	
CMP (Rs)	4,531
Target Price (Rs)	5,042
Potential Upside (%)	11.3

## Company Info

BB Code	HNAL IN EQUITY
ISIN	INE066F01020
Face Value (Rs.)	5.0
52 Week High (Rs.)	4,664.0
52 Week Low (Rs.)	1,490.3
Mkt Cap (Rs bn.)	3,030.5
Mkt Cap (\$ bn.)	36.4
Shares o/s (Mn.)	669
Adj. TTM EPS (Rs)	113
FY26E EPS (Rs)	133

## Shareholding Pattern (%)

	Mar-24	Dec-23	Sep-23
Promoters	71.64	71.64	71.64
FII's	12.42	12.93	12.63
DII's	9.58	9.13	9.72
Public	6.36	6.28	6.02

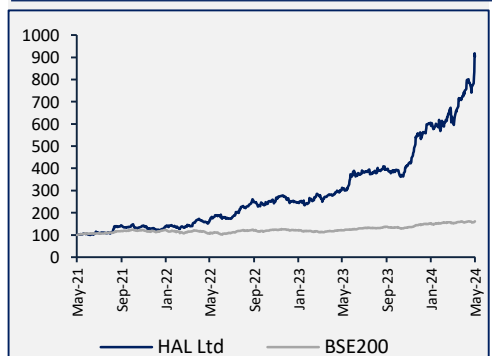
## Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 200	61.2	47.2	33.4
HAL	804.5	442.3	189.3

## Year end March (INR bn)

Particular	FY24	FY25E	FY26E
Revenue	303.8	343.6	390.0
Gross Profit	193.2	194.3	221.1
EBITDA	97.4	95.0	111.1
EBITDA (%)	32.1	27.7	28.5
EPS (INR)	114.0	114.8	132.7

## Rebased Price Performance



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## Management Call - Highlights

### Future Prospects and Production Plans

- The order pipeline looks promising with anticipated contracts valued at INR 160,000-170,000 crores, expected to materialize within 18 months to three years. This includes:
  - 97 additional LCA Mk-1A
  - 156 LCH Prachand
  - 43 advanced light helicopters Dhruv for IAF and Indian Army
  - 60 utility helicopters for the Indian Navy
  - Various Dornier aircraft upgrades
- These orders will keep manufacturing lines busy until 2032 and drive HAL's growth. The outlook for FY '24-'25 and beyond is promising, with new platforms added each year, expanding the product profile.

### Growth and Future Projections

- Company has maintained its growth momentum despite geopolitical tension, with a projected 12-15% growth in the coming years. Company anticipates receiving orders worth Rs 1,600-1,700bn within a three-year timeframe. Company is optimistic about its future growth and anticipates consistent growth in the mid-term.

### Capacity Building and Production Expansion

- LCA Tejas-Nashik plant is set to be operational in October 2024, while Helicopter plant in Tumukuri, Bangalore is also investing in capacity to increase LCA-Tejas HTT-40 delivery. LCA Tejas Mk-1 has a production capacity of 16, which will increase to 24.
- Company expects to get 93 more LCA Tejas Mk-1A orders. One aircraft from Nashik in FY25 and after that, the plant capacity will increase to 8 aircraft from 2026, delivering all aircraft by 2031-32, expecting a year before the contracting timeline.
- Company expects 17 aircraft to be delivered in FY25. ALH naval variant is currently in the developmental stage and is expected to reach production by FY26-27.

### Recent Deliveries and Orders

- Last year, company delivered various aircraft to Guyana, including LUH, AL-31 engines, 15 RD-33 engines, 6 ALH helicopters, and 2 Dornier aircraft, costing around Rs 2bn.
- Company's order book stands at Rs 940bn post-delivery of RD33 engines, Dornier Aircraft, and LCA Tejas Mk-1A, with an expected Rs 1,200bn for next year. MoD has approved acceptance of necessity for additional 97 LCA Mk-1A, Advance light helicopter, Dornier, LCH Prachand-150, Dhruv helicopter-40, 60 light utility helicopter for Indian Navy, and Sukhoi 30MKI upgrade program.
- Company plans to expand its portfolio to LUH this year, HTT-40, civil ALH with deliveries expected in FY26, and expects a new order from Naval variant of LCH and LCA Mk-2 prototype in FY26-27.
- Company expects a large order from Su-30MKI engine, with machinery setup completed and talks in the advanced stage to be finalized in 2-3 months. Su-30MKI upgrade program is in advanced discussions with other stakeholders, with the deal expected to be finalized within six months.

### Export Focus and Certification

- Company is seeking certification from global manufacturing for export purposes.
- Company has transitioned from serving the domestic market to focusing on exports, expecting export revenue growth within the next 2-3 years. Transfer-Of-Technology (ToT) for the GE414 engine is expected to be around 80%, with discussions currently in the advanced stage.

### Financial Performance and Cost Control

- Company has implemented cost control measures to decrease employee costs from 23% in FY18-19 to 16% in FY25. Expenses will decrease from 8-9% to 4-5% within 3-4 years.
- Change in IOC contact has resulted in an increase in gross profit by Rs 15 billion to the revenue. Anticipated EBITDA margin is expected to be between 30-32%, with interest income around 26-28%. New order intake guidance for FY25 is expected to be around Rs. 47000 crore.

### Operational Efficiency

- Inventory has reached its optimal level of 159 days. Debtors' turnover decreased from 220 days a few years ago to 55 days, with the same trend expected from now onwards.
- ROH is consistently growing at 8-9% every year, and from the manufacturing side, company is confident to achieve double-digit growth without any hassle. Company expects a mix of ROH-Manufacturing to be 60-40% in the coming years.

### Capital Expenditure and R&D

- Company is prioritizing capital expenditure and R&D to meet future demand. Company plans to invest Rs 3000 crore in capacity building for various platforms, including GE414-IMRH, Tejas MK-2, and AMCA programs. Investment is being made towards the construction of a 20k ton isothermal plant for aero structure and a carbon fiber facility.
- Company plans to significantly increase its revenue by investing Rs 4000cr for IMRH R&D and Rs 2000cr for Marine Naval Helicopter. Company has allocated 7-8% of its PAT towards R&D, focusing on the best industry for future growth.

### Local Content and MRO Activity

- Company is maximizing local content in its LCA program, establishing local components and LRU for actuators and the LCA Mk-1A where local content is higher than 65%.
- Commercial MRO activity for Airbus 320 has begun at Nashik plant, with expectations to start augmenting in the coming years.

### Revenue and Order Projections

- Company's ROH (current level is Rs 200bn) is consistently growing at an annual rate of 8-9%, while its manufacturing side anticipates 15-18% growth.

## Actual vs CEBPL

Particulars (Rs.Mn)	Actual	Choice Est.	Deviation(%)
Revenue	147,688	141,977	4.0
EBITDA	59,013	33,365	76.9
EBITDA Margins(%)	40	24	1,646
PAT	43,087	28,754	49.8

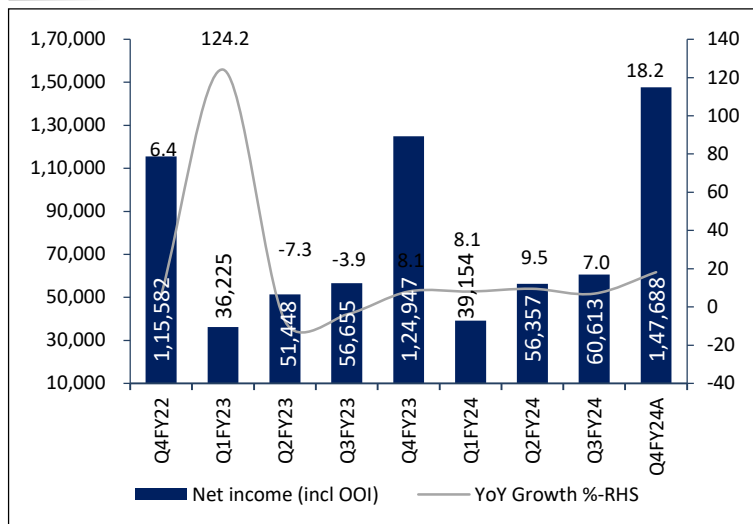
Source: Company, CEBPL

## Changes in Estimates

(INR Bn.)	FY24			FY25E			FY26E		
	New	Old	Dev. (%)	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	304	298	1.9	344	333	3.1	390	382	2.1
EBITDA	97	76	28.6	95	85	11.4	111	101	10.5
EBITDA margin(%)	32.1	25.4	665.2	27.7	25.6	205.7	28.5	26.3	216.4
APAT	76	61	24.3	77	69	11.9	89	80	11.1
EPS	114.0	91.7	24.3	114.8	102.6	11.9	132.7	119.4	11.1

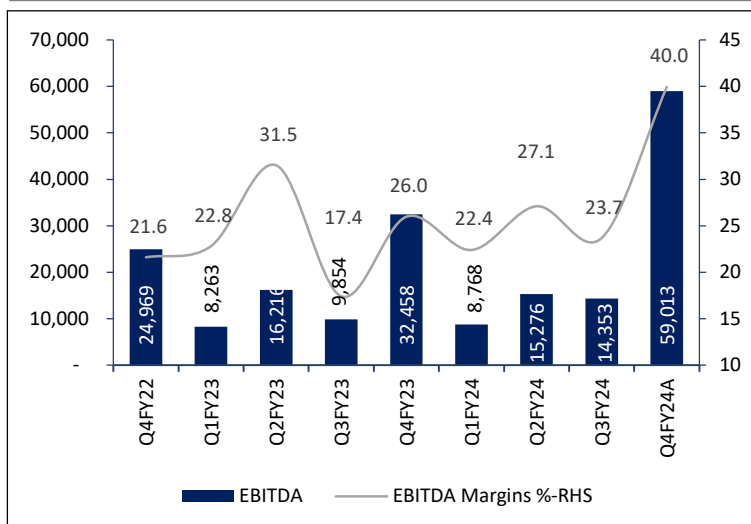
Source: Company, CEBPL

Revenue grew by +18% YoY



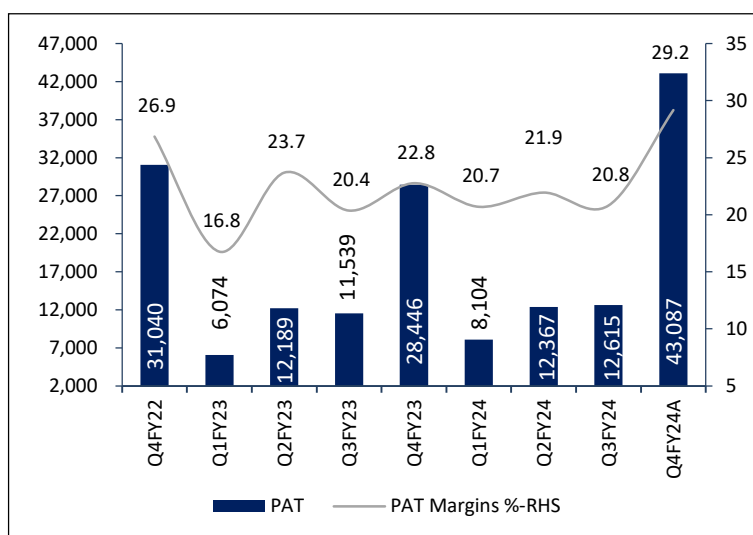
Source: Company, CEBPL

Significant Margin improvement 1,398bps YoY.



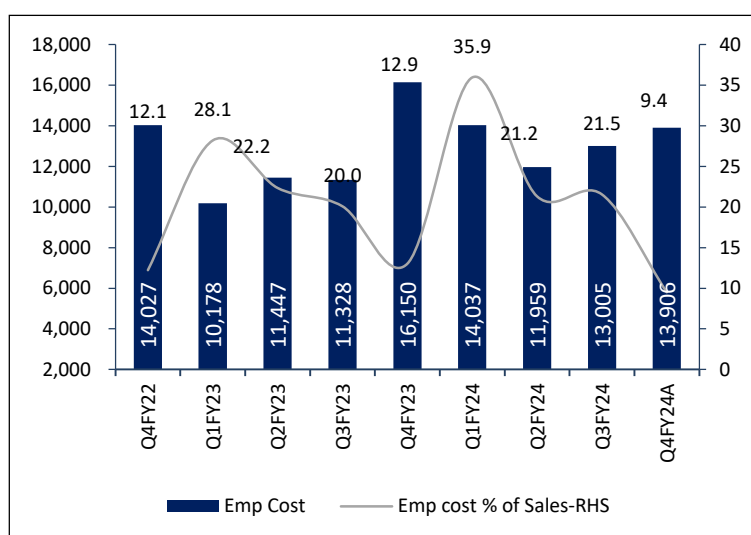
Source: Company, CEBPL

Massive PAT growth 51.5% on YoY basis



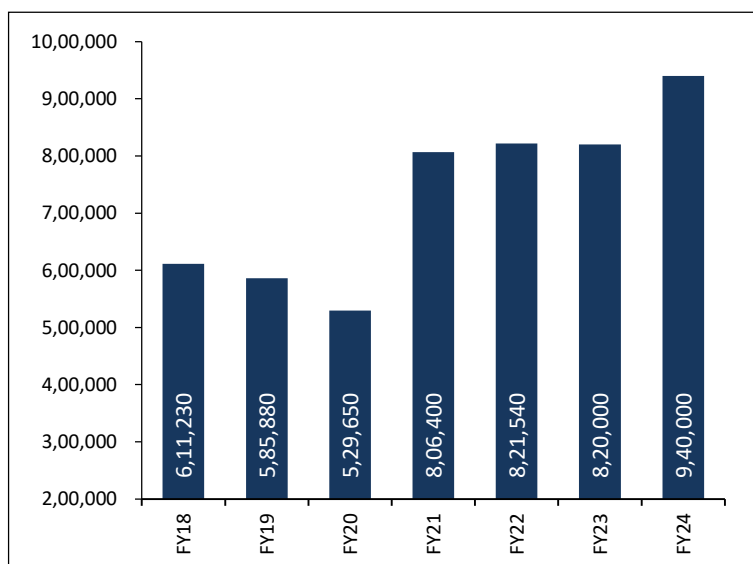
Source: Company, CEBPL

Reduction in Emp. Cost would support margins further



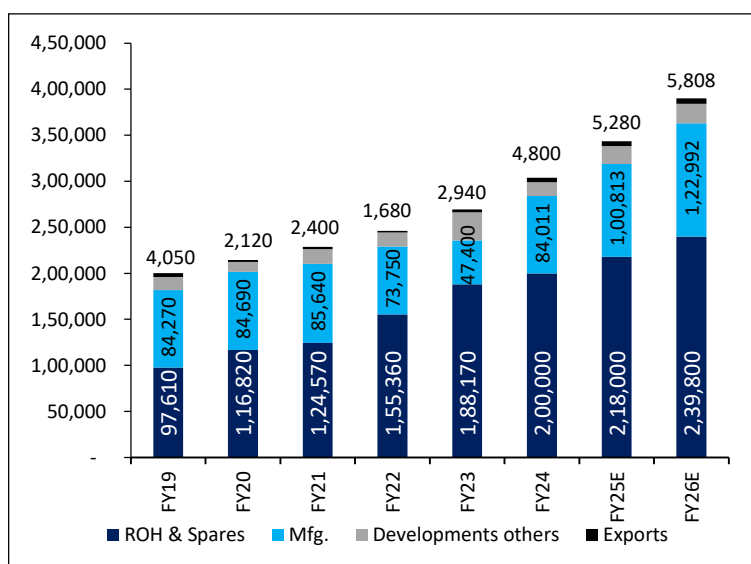
Source: Company, CEBPL

Growing Trend of Order Book Position



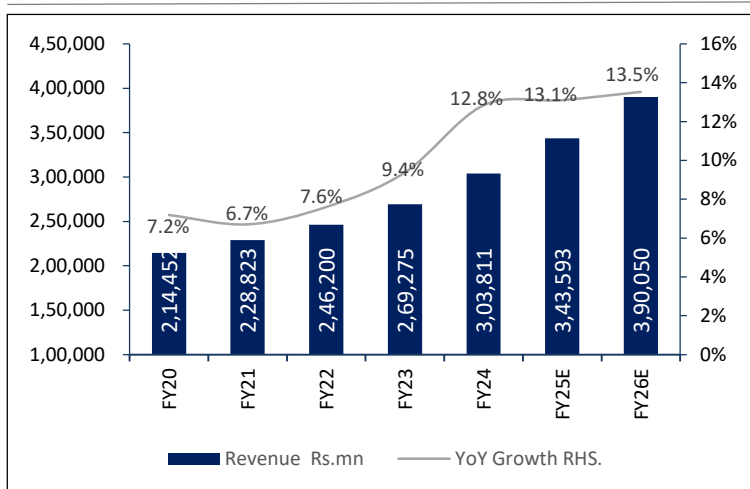
Source: Company, CEBPL

Revenue Mix (%)



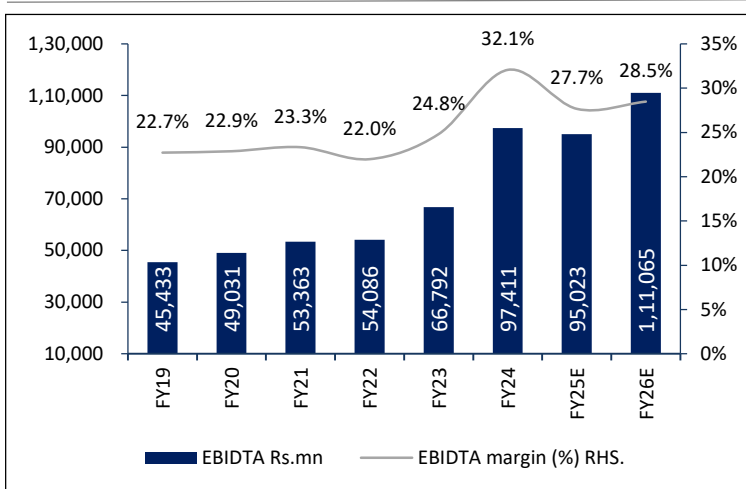
Source: Company, CEBPL

**Significant Revenue to grow over FY23-26E**



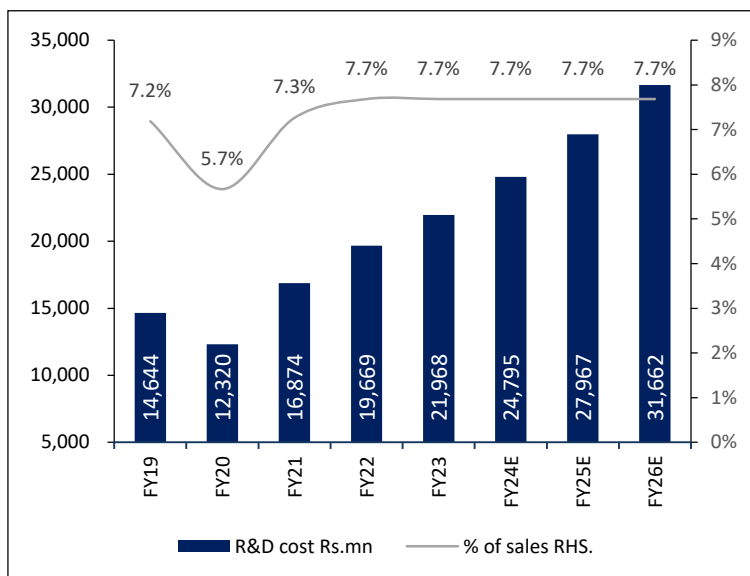
Source: Company, CEBPL

**EBIDTA margin to improve led by better mix**



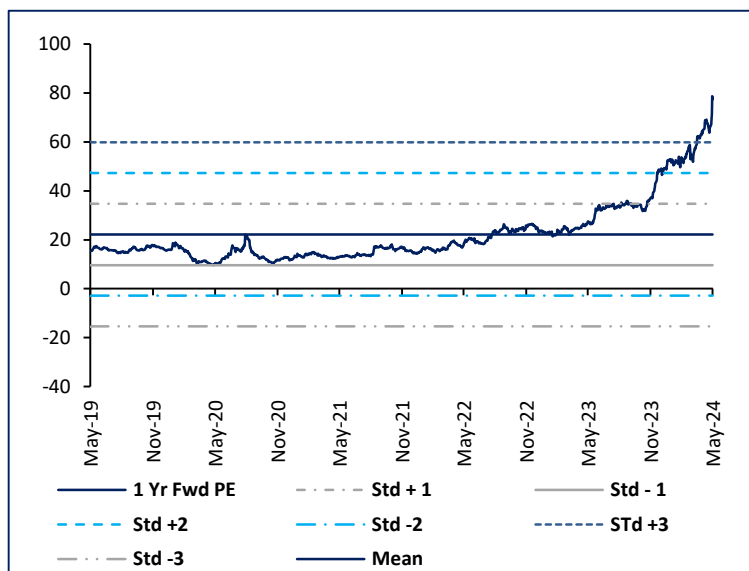
Source: Company, CEBPL

**R&D Expenditure Trend**



Source: Company, CEBPL

**1 Year Forward PE Band**



Source: Company, CEBPL

**Income statement (Consolidated in INR Mn.)**

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	246,200	269,275	303,811	343,593	390,050
Gross profit	146,188	168,254	193,220	194,322	221,059
EBITDA	54,086	66,792	97,411	95,023	111,065
Depreciation	11,105	17,847	14,072	13,424	15,198
EBIT	42,980	48,945	83,339	81,599	95,867
Interest expense	582	580	321	385	462
Other Income (Including EO Items)	9,849	16,701	18,966	20,483	22,122
Reported PAT	50,802	58,249	76,210	76,781	88,733
Minority Interest	(1)	-	-	-	-
Adjusted PAT	50,800	58,277	76,210	76,781	88,733
EPS (Rs)	56.5	14.7	30.8	0.8	15.6
NOPAT	76.0	87.1	114.0	114.8	132.7

**Balance sheet (Consolidated in INR Mn.)**

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	193,169	235,759	291,418	331,417	378,685
Other liabilities & provisions	140,526	128,006	126,290	172,053	197,823
Total Net Worth & liabilities	333,694	363,765	417,709	503,469	576,509
Net Fixed Assets	59,276	57,986	57,802	50,490	50,292
Capital Work in progress	9,491	6,369	9,369	7,400	7,800
Investments	21,777	28,345	13,897	34,359	46,806
Cash & bank balance	143,477	203,166	264,316	307,279	360,334
Loans & Advances & other assets	43,602	60,646	69,817	71,295	84,695
Net Current Assets	199,549	210,419	266,824	339,925	386,915
Total Assets	333,694	363,765	417,709	503,469	576,509
Capital Employed	193,169	235,759	291,418	331,417	378,685
Invested Capital	49,692	32,593	27,102	24,138	18,351
Net Debt	(143,477)	(203,166)	(264,316)	(307,279)	(360,334)
FCFF	91,780	73,099	65,341	60,731	101,719

Source: Company, CEBPL

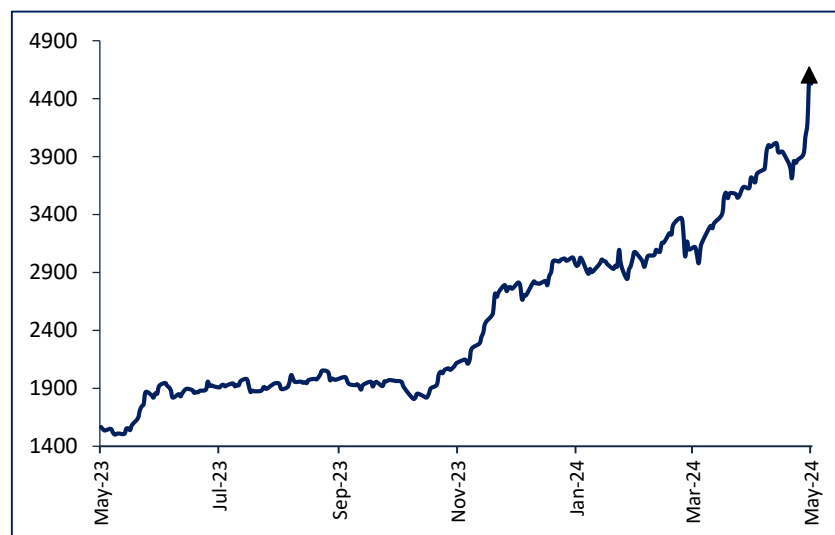
Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
CFO	99,801	80,973	82,228	64,874	117,119
Capex	(8,021)	(7,874)	(16,888)	(4,143)	(15,400)
FCF	91,780	73,099	65,341	60,731	101,719
CFI	(127,917)	(57,367)	(64,130)	(24,606)	(27,847)
CFF	(14,637)	(17,313)	(19,989)	(37,168)	(41,926)

Ratio Analysis	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Revenue	7.6	9.4	12.8	13.1	13.5
EBITDA	1.4	23.5	45.8	(2.5)	16.9
PAT	56.5	14.7	30.8	0.8	15.6
<b>Margin ratios (%)</b>					
EBITDA	22.0	24.8	32.1	27.7	28.5
PAT	20.6	21.6	25.1	22.3	22.7
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	1.8	1.2	0.8	0.7	1.1
OCF/IC	200.8	248.4	303.4	268.8	638.2
RoE	26.3	24.7	26.2	23.2	23.4
ROCE	22.3	20.8	28.6	24.6	25.3
<b>Turnover Ratios (Days)</b>					
Inventory	213	165	200	250	250
Debtor	69	64	64	70	75
Other Current Assets (days)	173	199	225	146	128
Payables (days)	38	42	45	50	51
Other Current Liab & Provns (days)	333	375	395	381	377
Cash Conversion Cycle	83	10	49	35	25
<b>Financial Stability ratios (x)</b>					
Net debt to Equity	(0.7)	(0.9)	(0.9)	(0.9)	(1.0)
Net debt to EBITDA	(2.7)	(3.0)	(2.7)	(3.2)	(3.2)
Interest Cover	73.8	84.4	259.5	211.8	207.3
<b>Valuation metrics</b>					
Fully diluted shares (mn)	669	669	669	669	669
Price (Rs)	4531	4531	4531	4531	4531
Market Cap(Rs. Mn)	3,030,220	3,030,220	3,030,220	3,030,220	3,030,220
PE(x)	60	52	39.8	39.5	34.2
EV (Rs.mn)	2,886,742	2,827,053	2,765,903	2,722,941	2,669,885
EV/EBITDA (x)	53	42	28	29	24
Book value (Rs/share)	289	353	436	496	566
Price to BV (x)	15.7	12.9	10.4	9.1	8.0
EV/OCF (x)	29	35	34	42	23

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
4.	18-05-2024	BUY,	Target Price Rs.5042

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<b>OUTPERFORM</b>	The security is expected to generate more than 25% returns over the next 12 months
<b>BUY</b>	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
<b>REDUCE</b>	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
<b>SELL</b>	The security expected to show Below 0% next 12 months

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