

## India

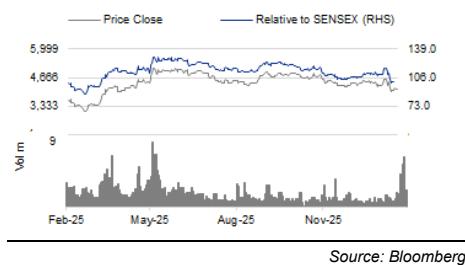
## ADD (no change)

Consensus ratings\*: Buy 21 Hold 1 Sell 3

Current price:	Rs4,159
Target price:	Rs4,800
Previous target:	Rs6,325
Up/downside:	15.4%
InCred Research / Consensus:	-12.2%
Reuters:	HIAE.NS
Bloomberg:	HNAL IN
Market cap:	US\$30,699m
Average daily turnover:	Rs2,781,368m
Current shares o/s:	US\$63.7m
Free float:	Rs5774.3m
*Source: Bloomberg	668.8m
	28.4%

## Key changes in this note

► We upgrade FY26F EPS by 8% on the back of higher other income, but trim FY27F/28F EPS by 5%/12% respectively, assigning 30x on Mar-2028F EPS for a new TP of Rs4,800.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.0)	(12.4)	15.7
Relative (%)	(8.0)	(11.6)	5.3

Major shareholders	% held
Promoters	71.6
LIC India	2.5
Public	11.6

## Research Analyst(s)

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## Hindustan Aeronautics Ltd

## Too compelling to ignore; worth a look

- Hindustan Aeronautics (HAL) reported in-line 3Q numbers vs. street revenue/EBITDA but beat PAT by 8% led by higher other income (37% of PBT).
- FY25 was a record order-intake year for HAL as we see medium-term pipeline skewed towards BEL/BDL (QRSAM, Project Kusha, P-75I, AWACS, AMCA).
- Maintain ADD rating with a lower TP of Rs4,800 as we assign 30x target P/E on Mar 2028F (30% discount to BEL). We continue to prefer BEL over HAL.

## Nearly ~40% of earnings in 9MFY26 came from higher other income

Hindustan Aeronautics (HAL) 3QFY26 revenue grew by 10.7% YoY to Rs76.9bn. Gross margin came in at 53.6% (vs. 50.8% in 3QFY25). EBITDA margin was flattish YoY at 24.3% whereas absolute EBITDA grew by 10.8% YoY to Rs18.7bn. Adjusted PAT grew by 29.3% YoY to Rs18.5bn led by higher other income (advances of front-loading of orders received over the last 12-15 months). Backlog shall be approx. ~Rs2.7tr (8.7x on FY25 sales).

## Macros in favour, micro remains mixed

While defence capex outlay for FY26RE rose by 4% to Rs1.86tr now, we see an 18% YoY growth in FY27RE to Rs2.19tr whereas 22% YoY growth vs. FY26BE. While this is positive for the whole space, benefiting right from PSUs (OEMs; project integrators) to private companies (sub-system, component beneficiaries) across the value chain, we feel that a higher allocation shall shift towards Indian Air Force & Indian Navy, given programs such as Kusha (India's S-400), Vishnu/Dhvani (hypersonic missiles), Rudra M2-3 (anti-radiation missiles), AMCA (5th generation fighter jet), Ghatak (UCAV), TAPAS BH-201 (MALE UAV), QRSAM (part of India's iron dome), AWACS, P-75I etc. in focus over next 12-18 months.

## Counting on timely execution

Market is counting on timely Tejas Mk1A deliveries, given company's strong Rs2.7tr backlog providing a long runway of visibility. While HAL's recent knockout from AMCA prototype program (Rs150bn for five aircraft) was a huge disappointment, we don't believe it's completely out of the race yet, as production phase to start only post- 2032F. Slower execution rate due to supply-chain bottlenecks, particularly around GE F404 engine deliveries, have tempered topline growth in past; however, progress on clearing bottlenecks (bombing trials) & expanding facilities (new Tejas lines at Nashik/Bengaluru units) are expected to accelerate deliveries over the next two-to-three years, in our view.

## Outlook and valuation

On the back of coverage transfer, we upgrade FY26F EPS by 8% (higher other income) whereas cut FY27F/28F EPS by 5%/12%, respectively, as we feel a higher product delivery mix apart from MRO's 10-12% growth p.a. should trump margins going ahead whereas Rs150bn capex plan over four-to-five years shall weigh on cash accruals. Maintain ADD rating with a lower target price of Rs4,800, as we assign 30x on Mar-2028F EPS. Downside risks: Supply chain problems, fierce competition, lower-than-anticipated margins etc.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	303,808	309,809	347,683	449,311	536,087
Operating EBITDA (Rsm)	97,539	96,217	108,908	123,892	143,531
Net Profit (Rsm)	75,950	83,168	96,498	100,191	107,196
Core EPS (Rs)	113.6	124.3	144.3	149.8	160.3
Core EPS Growth	30.7%	9.4%	16.1%	3.8%	7.0%
FD Core P/E (x)	36.62	33.44	28.82	27.76	25.95
DPS (Rs)	35.0	40.0	28.9	30.0	32.1
Dividend Yield	0.84%	0.96%	0.69%	0.72%	0.77%
EV/EBITDA (x)	25.81	24.94	21.38	19.33	16.98
P/FCFE (x)	153.33	96.87	30.62	(59.14)	(135.50)
Net Gearing	(91.0%)	(109.6%)	(106.5%)	(76.3%)	(58.1%)
P/BV (x)	9.58	7.98	6.53	5.50	4.70
ROE	28.9%	26.0%	24.9%	21.5%	19.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Financial snapshot – quarterly/nine-months**

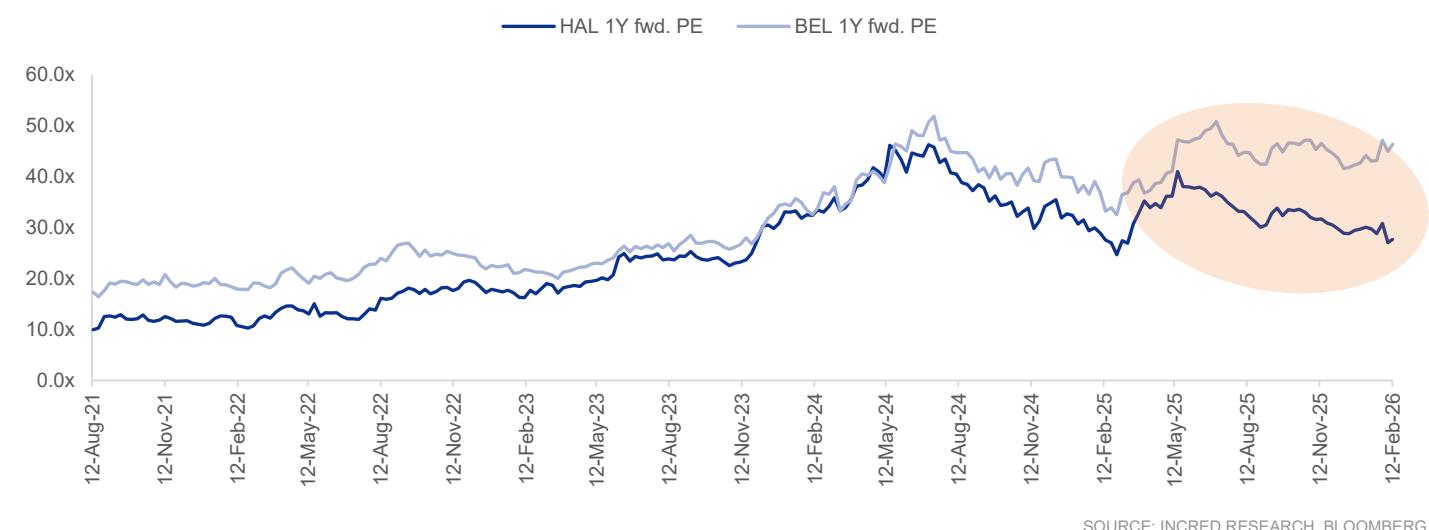
Particulars (Rs m)	3QFY26	3QFY25	YoY (%)	2QFY25	QoQ (%)	9MFY26	9MFY25	YoY (%)
Revenue	76,989	69,569	10.7	66,285	16.1	1,91,465	1,72,811	10.8
COGS	35,746	34,258	4.3	29,162	22.6	80,331	73,366	9.5
Employee costs	16,637	12,930	28.7	13,319	24.9	43,752	39,099	11.9
Other opex	5,883	5,480	7.3	8,212	(28.4)	20,204	17,151	17.8
Total opex	58,266	52,668	10.6	50,693	14.9	1,44,287	1,29,615	11.3
EBITDA	18,723	16,901	10.8	15,591	20.1	47,178	43,196	9.2
D&A	3,130	2,862	9.3	2,273	37.7	7,275	6,183	17.7
EBIT	15,593	14,039	11.1	13,319	17.1	39,902	37,013	7.8
Interest costs	10	1	1,285.7	3	185.3	16	2	700.0
Other income	9,135	6,312	44.7	8,889	2.8	25,514	19,128	33.4
Exceptional items	0	0		0		0	59	
PBT	24,719	20,350	21.5	22,205	11.3	65,400	56,197	16.4
Tax	6,202	6,024	2.9	5,579	11.2	16,486	12,612	30.7
Reported PAT	18,517	14,326	29.3	16,625	11.4	48,914	43,586	12.2
Adjusted PAT	18,517	14,326	29.3	16,625	11.4	48,914	43,527	12.4
Equity capital (FV: Rs5)	3,344	3,344		3,344		0	0	
Outstanding shares	669	669		669		669	669	
Adjusted Dil. EPS	27.7	21.4		24.9		73.1	65.1	
<b>% of revenue</b>								
COGS	46.4	49.2		44.0		42.0	42.5	
Employee costs	21.6	18.6		20.1		22.9	22.6	
Other opex	7.6	7.9		12.4		10.6	9.9	
EBITDA	24.3	24.3		23.5		24.6	25.0	
Adjusted PAT	24.1	20.6		25.1		25.5	25.2	
Tax	25.1	29.6		25.1		25.2	22.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Change in our earnings estimates**

Particulars (Rs m)	Old				New				% change		
	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY27F	FY28F
Revenue	3,56,991	4,30,815	5,23,458	3,47,683	4,49,311	5,36,087	-2.6%	4.3%	2.4%		
EBITDA	1,11,406	1,30,136	1,47,652	1,08,908	1,23,892	1,43,531	-2.2%	-4.8%	-2.8%		
EBITDA margin	31.2%	30.2%	28.2%	31.3%	27.6%	26.8%					
PAT	89,518	1,05,499	1,21,385	96,498	1,00,191	1,07,196	7.8%	-5.0%	-11.7%		
PAT margin	25.1%	24.5%	23.2%	27.8%	22.3%	20.0%					
EPS	134	158	182	144	150	160	7.8%	-5.0%	-11.7%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Valuation gap widens between BEL and HAL**

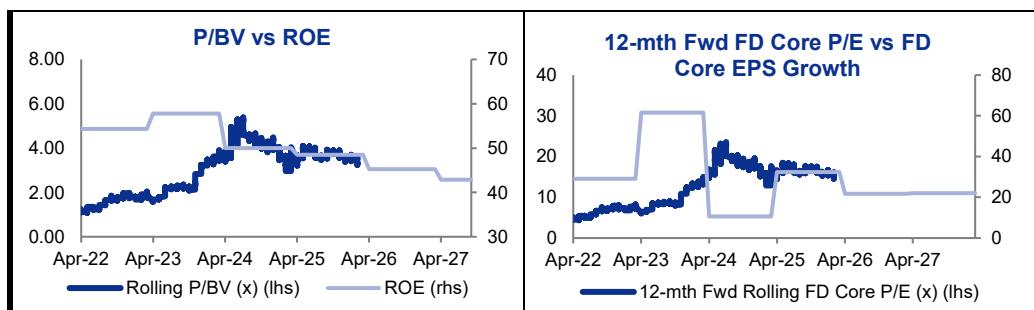
SOURCE: INCRED RESEARCH, BLOOMBERG

**Figure 4: Bharat Electronics vs. Hindustan Aeronautics comparison**

Particulars (Rs m)	BEL IN EQUITY					HAL IN EQUITY				
	FY24	FY25	FY26F	FY27F	FY28F	FY24	FY25	FY26F	FY27F	FY28F
Order inflow	3,54,134	1,87,150	5,70,000	2,85,000	3,13,500	4,05,069	11,99,757	8,99,817	5,00,298	7,50,448
Order book	7,59,340	7,16,500	10,12,108	9,70,083	8,85,573	9,41,290	18,40,000	23,95,186	24,50,026	26,68,921
<b>Book-to-bill rate</b>	<b>3.8x</b>	<b>3.0x</b>	<b>3.6x</b>	<b>2.9x</b>	<b>2.2x</b>	<b>3.1x</b>	<b>5.9x</b>	<b>6.9x</b>	<b>5.5x</b>	<b>5.0x</b>
Revenue	2,01,694	2,36,580	2,78,543	3,31,592	4,02,714	3,03,808	3,09,809	3,47,683	4,49,311	5,36,087
Gross margin	51.4%	50.5%	50.5%	50.0%	49.7%	63.5%	60.3%	61.0%	55.0%	54.0%
<b>EBITDA margin</b>	<b>24.8%</b>	<b>28.6%</b>	<b>28.2%</b>	<b>27.5%</b>	<b>27.3%</b>	<b>32.1%</b>	<b>31.1%</b>	<b>31.3%</b>	<b>27.6%</b>	<b>26.8%</b>
PAT margin	19.9%	22.4%	21.5%	20.8%	20.6%	25.0%	26.8%	27.8%	22.3%	20.0%
<b>Other income as a % of PBT</b>	<b>14.2%</b>	<b>10.8%</b>	<b>8.2%</b>	<b>7.5%</b>	<b>6.6%</b>	<b>18.6%</b>	<b>23.7%</b>	<b>27.0%</b>	<b>21.2%</b>	<b>16.0%</b>
Receivable days	130	127	135	133	128	184	218	200	180	180
Payable days	121	105	117	139	137	108	126	120	120	120
Inventory days	239	247	240	226	219	418	517	580	600	600
<b>Cash conversion cycle</b>	<b>248</b>	<b>269</b>	<b>258</b>	<b>220</b>	<b>210</b>	<b>494</b>	<b>609</b>	<b>660</b>	<b>660</b>	<b>660</b>
RoE	27.1%	29.6%	27.3%	25.8%	25.5%	28.9%	26.0%	24.9%	21.5%	19.5%
RoCE	36.0%	39.7%	36.4%	34.4%	34.1%	29.0%	26.0%	25.0%	21.5%	19.6%
Asset turns	7.4x	8.0x	8.2x	8.6x	9.5x	3.4x	3.3x	3.3x	3.6x	3.6x

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



Profit & Loss					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Net Revenues</b>	<b>303,808</b>	<b>309,809</b>	<b>347,683</b>	<b>449,311</b>	<b>536,087</b>
<b>Gross Profit</b>	<b>193,049</b>	<b>186,684</b>	<b>211,913</b>	<b>247,121</b>	<b>289,487</b>
<b>Operating EBITDA</b>	<b>97,539</b>	<b>96,217</b>	<b>108,908</b>	<b>123,892</b>	<b>143,531</b>
Depreciation And Amortisation	(14,214)	(13,644)	(14,843)	(18,508)	(23,324)
<b>Operating EBIT</b>	<b>83,325</b>	<b>82,572</b>	<b>94,065</b>	<b>105,385</b>	<b>120,207</b>
Financial Income/(Expense)	(321)	(86)	(97)	(125)	(149)
Pretax Income/(Loss) from Assoc.	18,985	25,655	34,696	28,329	22,870
<b>Profit Before Tax (pre-El)</b>	<b>101,990</b>	<b>108,141</b>	<b>128,664</b>	<b>133,588</b>	<b>142,928</b>
Exceptional Items			59		
<b>Pre-tax Profit</b>	<b>101,990</b>	<b>108,141</b>	<b>128,664</b>	<b>133,588</b>	<b>142,928</b>
Taxation	(26,039)	(25,032)	(32,166)	(33,397)	(35,732)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>75,950</b>	<b>83,168</b>	<b>96,498</b>	<b>100,191</b>	<b>107,196</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>75,950</b>	<b>83,168</b>	<b>96,498</b>	<b>100,191</b>	<b>107,196</b>
Recurring Net Profit	75,950	83,109	96,498	100,191	107,196
<b>Fully Diluted Recurring Net Profit</b>	<b>75,950</b>	<b>83,109</b>	<b>96,498</b>	<b>100,191</b>	<b>107,196</b>

Cash Flow					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	97,539	96,217	108,908	123,892	143,531
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(31,220)	47,665	9,397	(125,853)	(101,196)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	35,632	27,951			
Net Interest (Paid)/Received					
Tax Paid	(19,693)	(35,382)	(32,166)	(33,397)	(35,732)
<b>Cashflow From Operations</b>	<b>82,257</b>	<b>136,451</b>	<b>86,139</b>	<b>(35,358)</b>	<b>6,603</b>
Capex	(17,549)	(17,566)	(30,000)	(40,000)	(50,000)
Disposals Of FAs/subsidiaries	80	34			
Acq. Of Subsidiaries/investments	(1,120)	(1,225)			
Other Investing Cashflow	(45,528)	(88,982)	34,696	28,329	22,870
<b>Cash Flow From Investing</b>	<b>(64,117)</b>	<b>(107,738)</b>	<b>4,696</b>	<b>(11,671)</b>	<b>(27,130)</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,729)	(25,414)	(19,300)	(20,038)	(21,439)
Preferred Dividends					
Other Financing Cashflow	(260)	(372)	(97)	(125)	(149)
<b>Cash Flow From Financing</b>	<b>(19,989)</b>	<b>(25,785)</b>	<b>(19,396)</b>	<b>(20,163)</b>	<b>(21,588)</b>
Total Cash Generated	(1,848)	2,928	71,438	(67,192)	(42,115)
<b>Free Cashflow To Equity</b>	<b>18,140</b>	<b>28,713</b>	<b>90,835</b>	<b>(47,029)</b>	<b>(20,527)</b>
<b>Free Cashflow To Firm</b>	<b>18,140</b>	<b>28,713</b>	<b>90,835</b>	<b>(47,029)</b>	<b>(20,527)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	264,218	381,708	453,146	385,954	343,839
Total Debtors	165,106	205,367	190,511	221,578	264,372
Inventories	132,259	216,757	215,744	332,367	405,370
Total Other Current Assets	96,516	127,734	127,734	127,734	127,734
<b>Total Current Assets</b>	<b>658,100</b>	<b>931,566</b>	<b>987,135</b>	<b>1,067,633</b>	<b>1,141,314</b>
Fixed Assets	92,224	97,612	112,769	134,262	160,937
Total Investments	14,971	16,274	16,274	16,274	16,274
Intangible Assets					
Total Other Non-Current Assets	14,543	15,680	15,680	15,680	15,680
<b>Total Non-current Assets</b>	<b>121,738</b>	<b>129,565</b>	<b>144,723</b>	<b>166,215</b>	<b>192,891</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	34,147	51,108	44,637	66,473	81,074
Other Current Liabilities	455,226	661,594	661,594	661,594	661,594
<b>Total Current Liabilities</b>	<b>489,373</b>	<b>712,703</b>	<b>706,231</b>	<b>728,068</b>	<b>742,668</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>489,373</b>	<b>712,703</b>	<b>706,231</b>	<b>728,068</b>	<b>742,668</b>
Total Provisions					
<b>Total Liabilities</b>	<b>290,464</b>	<b>348,429</b>	<b>425,627</b>	<b>505,780</b>	<b>591,537</b>
Minority Interests					
<b>Total Equity</b>	<b>290,464</b>	<b>348,429</b>	<b>425,627</b>	<b>505,780</b>	<b>591,537</b>

Key Ratios					
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	12.8%	2.0%	12.2%	29.2%	19.3%
Operating EBITDA Growth	34.3%	(1.4%)	13.2%	13.8%	15.9%
Operating EBITDA Margin	32.1%	31.1%	31.3%	27.6%	26.8%
Net Cash Per Share (Rs)	395.08	570.75	677.57	577.10	514.13
BVPS (Rs)	434.32	520.99	636.42	756.27	884.50
Gross Interest Cover	259.98	957.91	972.37	842.98	805.90
Effective Tax Rate	25.5%	23.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	30.8%	32.2%	20.0%	20.0%	20.0%
Accounts Receivables Days	183.85	218.24	207.80	167.38	165.43
Inventory Days	418.30	517.32	581.36	494.73	545.97
Accounts Payables Days	107.96	126.37	128.70	100.29	109.19
ROIC (%)	550.3%	(128.1%)	(161.1%)	76.3%	39.0%
ROCE (%)	31.7%	25.8%	24.3%	22.6%	21.9%
Return On Average Assets	10.5%	9.0%	8.8%	8.5%	8.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:	
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:	
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:	
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.