Q4FY26 Quarterly Result Review

Defence & Aerospace Sector

Sector View: Positive

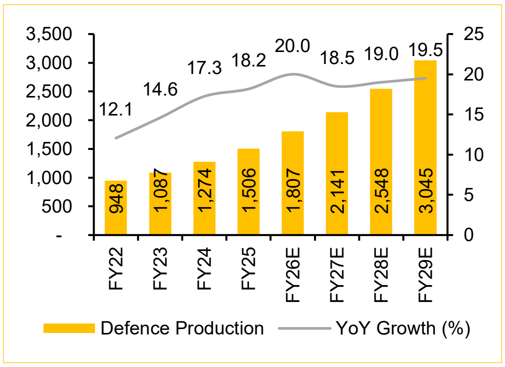
Choice Institutional Equities

Revenue softness due to execution timing, but margin & earnings remain resilient

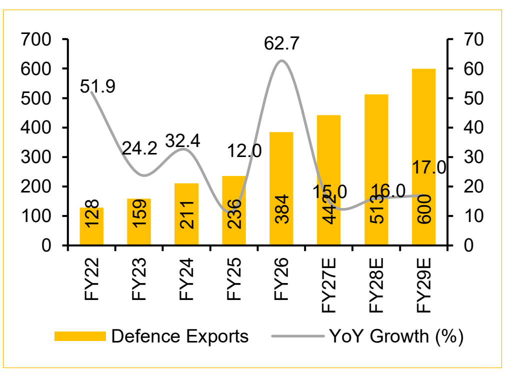
Recommendation			
Company (Ticker)	CMP (INR)	TP (INR)	Rating
Astra Microwave Prdct. (ASTM)	1,324	1,300	REDUCE
Apollo Micro Sys. (APOLLO)	408	365	ADD
Azad Engineering (AZAD)	2,091	1,900	REDUCE
Bharat Dynamics (BDL)	1,227	1,500	BUY
Bharat Electronics (BHE)	407	500	BUY
Centum Electronics (CTE)	3,600	3,300	ADD
DCX Systems (DCXINDIA)	198	150	SELL
Data Patterns (DATAPATT)	3,990	4,060	ADD
Hindustan Aeronautics (HNAL)	4,264	5,050	BUY
Zen Technologies (ZEN)	1,672	1,850	BUY

**CMP as on June 03, 2026*

Defence Production to expand 19% CAGR over FY26–29E (INR Bn)



Defence exports to expand 16% CAGR over FY26–29E (INR Bn)



Execution delays weigh on revenue, but margin strength drives earnings resilience

Our defence coverage universe reported aggregate **Q4FY26 revenue** of **INR 2,66,728 Mn**, broadly flat **YoY (-0.8%)** and **3.1% below estimate**, with the shortfall concentrated in **BDL**, **DCX Systems** and **Zen Technologies** on account of **programme delivery timing variability**. Despite the revenue miss, **EBITDA of INR 86,828 Mn** exceeded estimate by **~1.0%**, with aggregate **EBITDA margin of 32.6%** outperforming our estimate by **130 bps**. **PAT of INR 69,355 Mn** beat estimate by **~3.0%** and grew **2.5% YoY**, even as **EBITDA contracted 3.0% YoY**, a divergence consistent with **PAT-level support from non-operating income**. Pronounced sequential improvement (**revenue +58.9%**, **EBITDA +97.5%**, **PAT +83.9% QoQ**) reflects characteristic **fiscal year-end delivery acceleration**.

DPSUs: BHE and HNAL anchor execution; BDL delivers a material programme-timing miss

Government defence companies reported aggregate **revenue of INR 2,46,555 Mn**, **marginally above estimate**, as strong execution at **BHE (+9.2% vs estimate; +11.7% YoY)** and **HNAL (+6.4% vs estimate; +1.8% YoY)** offset a **significant shortfall at BDL**, the revenue of which **(INR 4,886 Mn)** was **77.4% below estimate** and **72.9% below Q4FY25**. **EBITDA margin of 32.8%** beat estimate by **70 bps**, though contracted **128 bps YoY**. **PAT grew 2.5% YoY to INR 65,356 Mn**, with margin expanding **64 bps YoY to 26.5%**, underscoring the **balance sheet strength** and **earnings compounding** inherent in the DPSU segment.

Private players: Revenue miss masks structural margin improvement

Private defence companies reported **revenue of INR 20,173 Mn, 30.1% below estimate** and **9.8% lower YoY.** The shortfall is largely attributable to **DCX Systems (INR 2,073 Mn vs est. INR 6,050 Mn)** and **Zen Technologies (INR 1,781 Mn vs est. INR 4,875 Mn)**. **EBITDA margin of 29.1%** materially exceeded our estimate of **23.7%** by **540 bps** and expanded **472 bps YoY**, reflecting a **favourable execution mix** within the delivered revenue base. **EBITDA grew 7.7% YoY** and **PAT grew 2.3% YoY to INR 3,999 Mn**. We believe that the revenue shortfall is because of **timing differential in order-to-execution conversion**, **not a demand-side signal** and the **deferred deliveries** are expected to reflect in subsequent quarters.

Our View: The quarter's **central message** is one of **earnings quality holding despite top-line stagnation** – aggregate revenue was flat **YoY (-0.8%)** and **missed estimate by 3.1%**, yet aggregate **EBITDA and PAT beat estimate**. The **DPSU segment's execution** – anchored by **BHE and HNAL** – and the **private sector's structural margin improvement** collectively support our **positive stance on Indian defence** as a **multi-year earnings compounding theme**.

Preferred Long-term Investment Ideas

Bharat Electronics Q4FY26 Result Update	Bharat Dynamics Q4FY26 Result Update
TP: INR 500 | Upside: 23.0%	TP: INR 1,500 | Upside: 22.2%
Strong Order Book position of INR 763 Bn (~2.8x of FY26 revenue)	Strong Order Book position of INR 260 Bn (~10.8x of FY26 revenue)
Revenue expected to expand 17.3% CAGR over FY26-29E	Revenue expected to expand ~55.3% CAGR over FY26–29E

Q4FY26 Quarterly Result Review

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Several trends stand out this quarter:

1

Value-chain Upgradation & IP-driven Indigenisation

- **Shift from Build-to-Print (BTP) to Proprietary IP:** Defence players are aggressively moving away from low-margin BTP models towards high-margin, Build-to-Spec (BTS) and IP-driven manufacturing. For instance, **Astra Microwave** highlighted that transitioning its export business towards higher value-add products and focusing on IP-driven exports significantly expanded its margin
- **Evolution from Component Suppliers to Full-System Integrators:** Companies are scaling up operations to become holistic platform providers. **Apollo Micro Systems** is transitioning from being a subsystem manufacturer to a full-fledged global OEM and weapon systems powerhouse. Across the broader sector, companies traditionally focussed on engineering design are actively making the leap into large-scale manufacturing and systems integration

2

Hyper-Focus on New-age Warfare & Deep Tech

- **Surge in Anti-drone & Electronic Warfare (EW) Systems:** Geopolitical conflicts have catalysed immediate demand for EW and anti-drone technology. **Zen Technologies** noted that anti-drone demand has vastly exceeded initial estimates, accelerating their order book. **Data Patterns** is also actively advancing its self-protection jammer pods for fighter aircraft, preparing for upcoming flight tests. The broader sector trend reveals companies securing major orders for EW-resilient systems and combat drones
- **Investments in AI and Quantum Computing**: Large incumbents are future-proofing their portfolios to maintain technological leadership. **Bharat Electronics** is cultivating in-house capabilities and engaging with start-ups and academia to develop drone electronics, quantum computing and quantum-safe communications

3

Global Supply Chain Integration & Export Acceleration

- **Penetrating Global OEM Supply Chains**: Indian companies are successfully securing highly critical, single-source contracts globally. **Azad Engineering** has entered strategic, long-term supply agreements for complex hot-section components with major global engine OEMs like Mitsubishi, GE, Pratt & Whitney and Rolls-Royce
- **Western Procurement from India**: Heightened geopolitical risks are pushing Western nations to diversify their supply chains. **Data Patterns** anticipates that Western countries will increasingly procure its advanced radar and EW systems due to its proven capabilities and shorter delivery timeframes. Across the board, several players are also noting that a significant portion of their revenues are now derived from robust international demand

4

Aggressive Diversification into Offensive Platforms

- **Development of Smart Ammunition and Loitering Munitions**: Surveillance and training companies are rapidly entering the offensive strike space. **Zen Technologies** is expanding heavily into 30mm smart ammunition (airburst capabilities) and remote-controlled weapon stations to bring down drones. Other players in the sector are similarly expanding their deep-tech innovations into counter-drone systems and tactical combat UAVs to address the evolving nature of global conflicts

5

Margin Resilience amidst Supply Chain Headwinds

- **Superior Margin Profiles Driven by Product Mix**: Despite inflationary pressure and geopolitical shocks, companies are locking in historic margin due to scale, indigenisation and favourable product mixes. Data Patterns is targeting healthy EBITDA margin of 38–40% and **Hindustan Aeronautics** guided for a sustained 30–31% margin, going forward
- **Tactical Navigation of Supply Chain Constraints:** The sector is acknowledging a slowness in the global supply chain, primarily due to geopolitical situations in West Asia. To mitigate this, **HNAL** is proactively identifying multiple vendors for critical items – spanning both, indigenous and foreign, sources – to ensure production lines remain on schedule. Other supply chain players are seeing inventory rebuilding and demand constraints steadily normalising

Execution Visibility Improves as Key Platforms Enter Production

India's defence manufacturing sector continues to progress through a structurally strong upcycle, supported by sustained policy continuity, rising budgetary allocation and steady progress in indigenisation. Backed by higher domestic procurement, increasing localisation of critical subsystems and expanding private-sector participation, **defence production** remains on track to reach **~INR 3 Tn by FY29E (~18% CAGR)**. **The policy thrust is increasingly visible in execution, with multiple complex platforms, such as LCA Tejas Mk-1A, advanced missile systems, indigenous radars and UAV programmes progressing through final trials and entering production phases.** Focus remains on high-value segments – missiles, avionics, radars, UAVs, electronic warfare and space-based systems – supported by Make and iDEX initiatives which continue to accelerate technology absorption and ecosystem development. **With defence exports targeted at INR 500 Bn by FY29E, India is gradually strengthening its position as a competitive global supplier beyond import substitution.**

We continue to view this as one of the most compelling multi-year manufacturing themes in India. **Improving execution across large programmes, supported by visible transition from development to production in key platforms, along with platform-level integration by private players and supply-chain deepening across DPSUs and Tier-I/II vendors, is driving better revenue visibility.** The pipeline of upcoming programmes across aircraft, missile systems, sensors and strategic electronics remains **robust over the next 3–5 years**. **In our view, the sector is steadily transitioning from policy-led intent to execution-driven growth, with earnings compounding supported by scale benefits, localisation gains and improving export traction.**

Peer Comparison

Company	CMP	TP (INR)	Book-to-bill (FY26 revenue) (x)	Revenue CAGR (FY26–29E)	EPS CAGR (FY26–29E)	EBITDA Margin (%)			EPS (INR)			PE (x)		
						FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Tier-I														
Hindustan Aeronautics	4,264	5,050	7.7x	13.6%	13.9%	31.2	31.3	31.4	155.2	177.2	201.4	27.5	24.1	21.2
Bharat Dynamics	1,227	1,500	10.8x	55.3%	69.7%	18.8	18.9	19.0	22.7	37.4	56.0	54.1	32.8	21.9
Bharat Electronics	407	500	2.8x	17.3%	20.0%	30.1	30.2	30.3	10.3	12.2	14.3	39.6	33.2	28.4
Tier-II														
Astra Microwave	1,324	1,300	2.2x	20.9%	23.0%	28.2	28.5	28.8	25.5	32.5	37.8	52.0	40.7	35.0
Data Patterns	3,990	4,060	1.0x	30.7%	33.8%	40.5	40.5	40.5	69.3	90.2	116.1	57.6	44.3	34.4
Apollo Micro	408	365	1.6x	55.1%	56.9%	24.0	24.0	24.0	4.6	7.2	11.0	88.8	56.9	37.1
Zen Technologies	1,688	1,850	1.9x	61.3%	50.4%	35.0	35.0	35.0	29.8	61.5	82.1	56.6	27.5	20.6
Azad Engineering	2,091	1,900	10.8x	37.3%	42.1%	36.5	36.6	36.7	30.0	42.2	59.4	69.7	49.5	35.2
DCX Systems	198	150	4.0x	23.3%	34.9%*	1.2	1.5	1.8	3.4	4.8	6.2	58.1	41.1	32.0
Centum Electronics	3,590	3,300	1.7x	19.3%	105.5%*	14.7	14.9	15.0	25.0	70.6	105.5	143.7	50.9	34.0

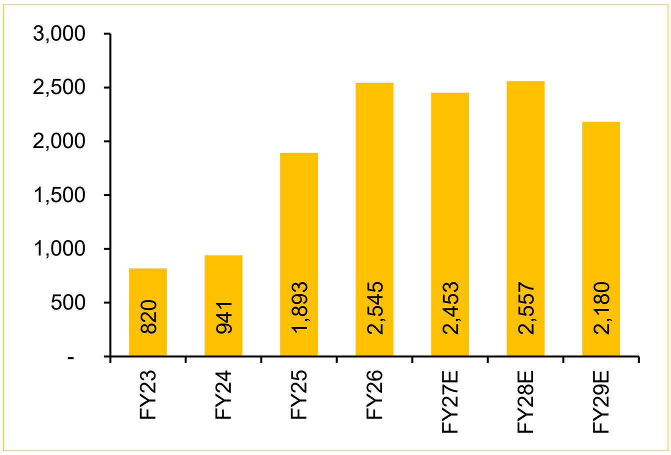
**EPS CAGR (FY27–29E)*

Source: Choice Institutional Equities

Order Book Trends across Coverage Universe

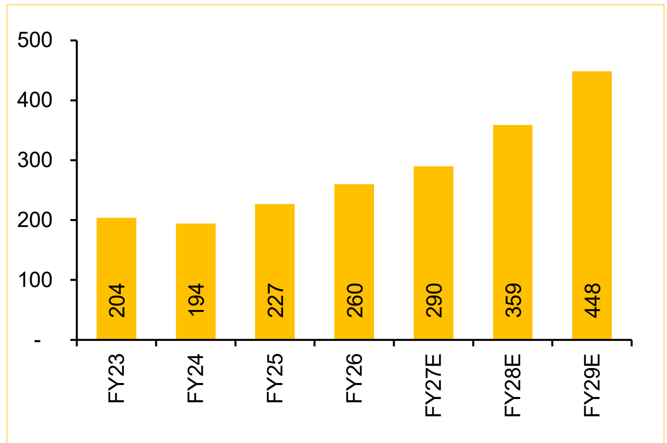
Order books across our defence coverage universe remain on a firm growth trajectory, underscoring strong demand visibility and sustained procurement momentum. **Public sector undertakings continue to anchor large, multi-year contracts backed by government spending, while private players are steadily capturing market share through faster execution** cycles and a sharper focus on high-value, technology-driven solutions. **Our forecast, based on a consistent book-to-bill assumption, aligned with historical trends and management commentary**, reflects a healthy order pipeline supported by rising defence budgets, policy tailwinds and the government's strategic push for indigenisation. **This combination positions the sector for a structurally robust growth cycle over the medium term.**

Hindustan Aeronautics Order Book (INR Bn)



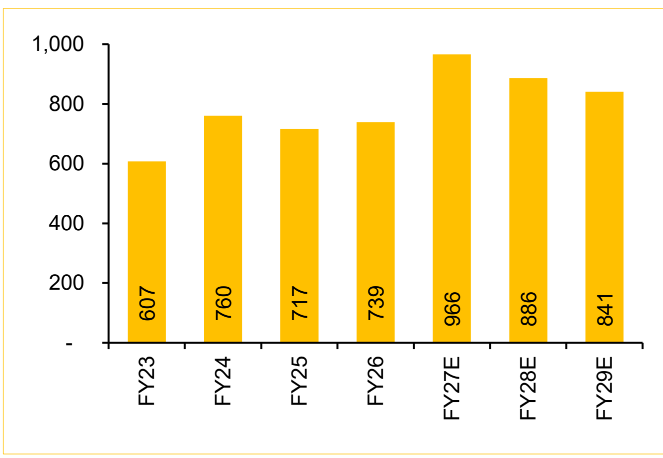
Source: HNAL, Choice Institutional Equities

Bharat Dynamics Order Book (INR Bn)



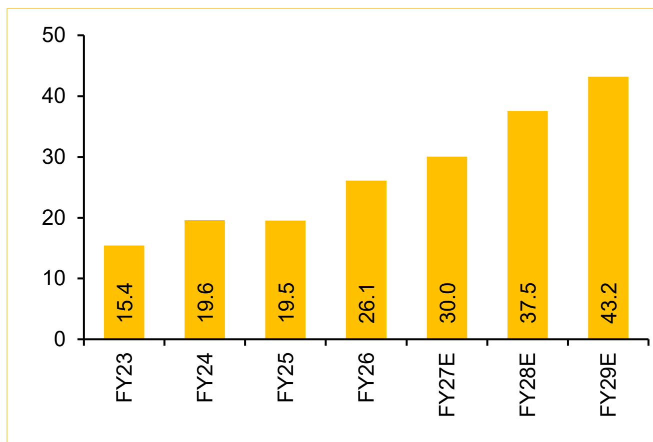
Source: BDL, Choice Institutional Equities

Bharat Electronics Order Book (INR Bn)



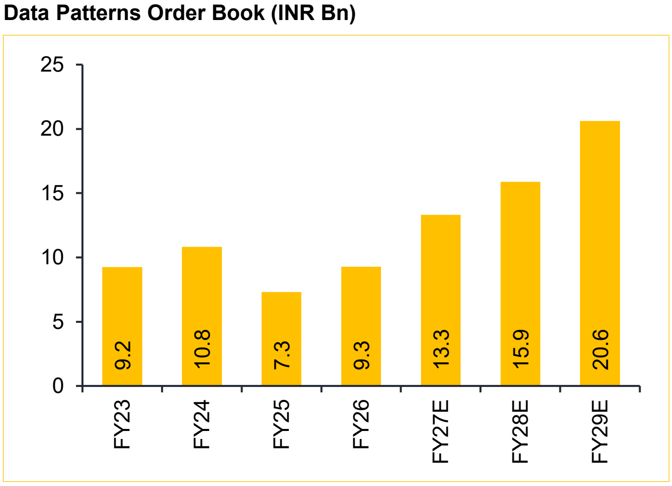
Source: BHE, Choice Institutional Equities

Astra Microwave Order Book (INR Bn)



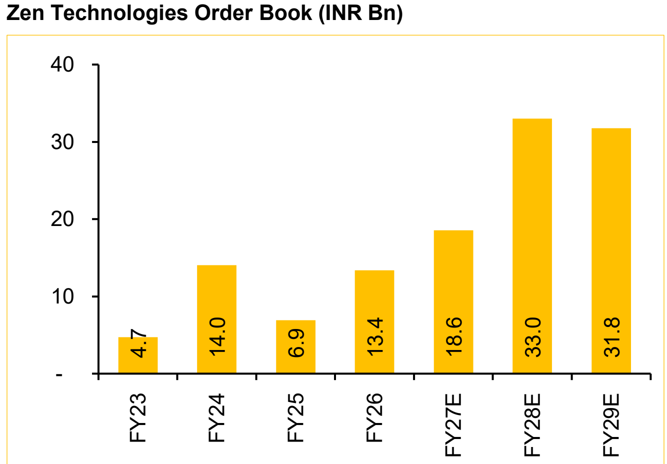
Source: ASTM, Choice Institutional Equities

Data Patterns Order Book (INR Bn)



Source: DATAPATT, Choice Institutional Equities

Zen Technologies Order Book (INR Bn)



Source: ZEN, Choice Institutional Equities

Q4FY26: Key takeaways from management commentary (1/3)

Company Name	Key Takeaways
Astra Microwave	▪ The management projects an FY27E **topline growth of 15–20%**, targeting sales between INR 1,300 Cr and 1,400 Cr ▪ Clear visibility to secure over INR 1,600 Cr in new orders for FY27, with the mix expected to be 25% from R&D and the remainder from production ▪ Expected **segment revenue** mix for FY27: Radar (~45%), Electronic Warfare and Missiles (~25%) and Space & Meteorology (~25%), with a 75:25 split between production and R&D ▪ Strategically **targeting to triple revenue** in the next five years (by FY31), driven purely by visibility from 5–6 major existing programmes, without factoring in potential new proprietary IP-led products ▪ **Capex Requirements:** The goal of tripling revenue will not require significant new capex. The company plans to maintain its current annual capex run-rate of **INR 40–50 Cr**. Additionally, increased volume will be managed within current working capital limits ▪ Planning to launch proprietary, Astra-branded IP products and solutions for both Indian and global markets before November 2026, with the first 'No Cost No Commitment' demo planned for Q1 FY27 ▪ Guided for **FY27** growth of minimum 50% in order bookings, targeting over **INR 600 Cr in top line** and expecting to achieve **18–20% EBITDA margin** (minimum INR 20 Cr share of profit)
Azad Engineering	▪ **Top-line Growth:** The management guided 25%+ revenue growth for FY27, sustained on a multi-year basis, underpinned by firm customer schedules and already-qualified products ▪ **Margin Target:** Target EBITDA margin band of 33–35%+, with upside potential from ongoing shop-floor improvements ▪ **ATGG Engine:** Nearing delivery milestone for the ATGG engine ▪ **Aerospace Qualifications:** Rolls-Royce first qualification batch expected in H2 FY27, with supply commencing Q4 FY27/early FY28; Pratt & Whitney and Safran approvals to follow sequentially ▪ **Robust Backlog:** Rolling order book of ~INR 6,500 Cr (11–12x FY26 revenue), realisable over 5–6 years ▪ **Mix Shift Target:** Energy and Oil & Gas represented ~81.5% of FY26 revenue; Aerospace & Defence crossed INR 100 Cr (~17.2%). In the next five years, Energy's share is targeted at 55–60% as Aerospace & Defence and Oil & Gas scale up ▪ **FY27 Capex:** Remaining INR 180–190 Cr from QIP proceeds earmarked for new plant commissioning ▪ **Facility Rollout:** Four lean manufacturing facilities recently inaugurated, including a Baker Hughes-dedicated facility (April 2026); four additional plants under construction, targeted for commissioning by FY27-end
Bharat Electronics	▪ **Revenue & Margin:** The management retained a revenue growth guidance of >15% for FY27E, with EBITDA margin expected >28% ▪ **Order Inflow Projection:** The company expects >INR 55,000 Cr in order inflows for FY27, which includes the QRSAM programme ▪ **Capital Allocation:** FY27 capex is targeted at >INR 1,200 Cr (a >20% YoY increase), alongside R&D investments projected at ~INR 2,200 Cr ▪ **Business Mix:** The defence to non-defence revenue ratio is anticipated to remain steady at 90:10, with a strategic goal to **steadily scale up non-defence contribution to 15–20%** ▪ **Export Opportunities:** The export segment accounts for only 4–5% of the turnover; the management aims to **increase this to over 10% in the next 4–5 years** ▪ **QRSAM Programme:** Final contract signing is expected by June 2026 ▪ **Data Centre Ventures:** BHE is aggressively pursuing homegrown, cyber-safe data centre solutions (hardware, software, and cybersecurity) with potential orders ranging from INR 2,000 to INR 10,000 Cr ▪ **Capacity Expansion:** Large infrastructure investments are earmarked for the next three years across Palasamudram, Chitrakoot, Vellore, Ghaziabad and Bengaluru

Source: Choice Institutional Equities

Q4FY26: Key takeaways from management commentary (2/3)

Company Name	Key Takeaways
Data Patterns	▪ **Revenue Guidance:** The management targets 20–25% revenue growth in the short term ▪ **Margin Guidance:** The company expects to sustain a healthy EBITDA margin at 38–40% ▪ **Current Backlog:** The reported order book stands at INR 926 Cr. The effective order pipeline is INR 2,062 Cr, which includes INR 1,090 Cr of fully negotiated contracts, expected to close in the next 1–2 months ▪ **Repeat Production Orders:** An additional INR 1,900 Cr in single-vendor production contracts are expected in the next 12 months on the basis of previously delivered products ▪ **BrahMos Seekers:** The first variant of the development seeker is under execution, with production orders expected in 4–5 months ▪ **Electronic Warfare (EW):** Fully in-house developed EW suites and self-jammers have been well-received by the Indian Air Force and are ready for flight trials ▪ **Anti-drone & Radar Systems:** Actively developing new solutions for drone detection, spoofing and jamming, alongside airborne fire control and surveillance radars ▪ **Global OEM Engagement:** International OEMs from Europe and the US are actively visiting and enquiring for complete systems
Apollo Micro Sys.	▪ **Inorganic Growth:** Acquisition by subsidiary Apollo Defence Industries is expected to be completed before FY27-end ▪ **Capacity Expansion:** Civil work for Phase 1 of the greenfield expansion in Telangana (Unit 3) is complete, and the installation of the recently-received machinery is actively under way ▪ **New R&D Milestones:** The company successfully developed a Mini Torpedo, a Sensor Suite for underwater autonomous vehicles and a Fiber Optic Gyro-based INS ▪ **Internal RF Seeker Development:** Heavy internal R&D investments are being directed towards RF Seeker development, supported by a specialised testing facility being established at the Hardware Park unit ▪ **Domain Expansion in FY27E:** Entry into new defence domains this year, including armament electronics, fire control systems and vehicle-mounted counter-drone systems ▪ **Financial Turnaround of Subsidiary:** IDL Explosives recorded nearly INR 380 Cr in revenue for the year and is undergoing operational transformation to reverse historical losses
Zen Technologies	▪ Consolidated order book stood at INR 1,336 Cr as of March 31, 2026. Of this, ~INR 1,000 Cr is scheduled for execution in FY27 (primarily in Q2 and Q3), remaining INR 326 Cr represent AMC revenues recognised over time ▪ Cumulative revenue guidance of INR 4,000 Cr for FY27 and FY28 ▪ Long-term margin guidance maintained of 35% at the operational EBITDA level and 25% at the PAT level ▪ Bidding Pipeline: ~INR 1,500 Cr in competitive bids and another potential INR 1,000 Cr in single-vendor tenders. The pipeline split is 55% anti-drone systems and 45% simulators ▪ Hyperstrike launch: Autonomous, AI-enabled interceptor drone with ~400 km/h speed and ~5-minute loiter time; management expects it to become the largest product within two years, with initial production capacity of ~5,000–15,000 units per shift per month starting this year ▪ Vrishabh launch: A new unmanned ground vehicle with a 150 kg payload, ~50 km/h speed and ~100 km range, designed for combat logistics, casualty evacuation and weapon integration, with commercial launch targeted by FY27-end ▪ The management expects ARI and UTS (subsidiaries) to generate ~INR 365 Cr revenue in FY27E, with ARI scaling up to ~INR 300 Cr and UTS to ~INR 150–200 Cr by FY28E.

Source: Choice Institutional Equities

Q4FY26: Key takeaways from management commentary (3/3)

Company Name	Key Takeaways
Centum Electronics	▪ Operations in Canada were **discontinued** in Q4FY26 ▪ The French subsidiary entered a court-supervised legal restructuring process in March 2026 and final bids for the French asset sale are expected shortly ▪ The divestment process targets conclusion by **July 2026** ▪ Capital allocation and management bandwidth will now focus purely on core India ESDM platform ▪ The management targets a medium-term standalone revenue **CAGR of 25–30%** ▪ EBITDA margin is guided at **13–15%** in the near-to-medium term ▪ FY27E capex is projected at approximately **INR 40–45 Cr** ▪ Opportunity size for the HNAL radar exceeds **INR 570 Cr** over its lifecycle. Phase one (development) of the project is valued at INR 66–67 Cr over the next two years
Hindustan Aeronautics	▪ **Top-line Projection**: The management guided for a **double-digit revenue growth of 10–12%** for FY27E ▪ **Margin Durability**: Expected to maintain stable **EBITDA margin in the 30–31% range** for FY27E ▪ **Revenue Composition Shift**: Over time, manufacturing sales are expected to grow and shift the revenue composition to a **50:50 split between manufacturing and ROH** (currently ~30:70), without impacting the overall 30% margin profile ▪ **Record Backlog**: The total order book expanded to **INR 254,538 Cr** at the end of FY26 ▪ **Major Contract Wins**: Included 97 LCA Mk1A for the IAF, 6 ALH Mk III MR-2 for ICG, 10 ALH Dhruv NG for Pawan Hans and 8 Do-228 for ICG ▪ **Order Pipeline**: HNAL anticipates an additional **INR 90,000 Cr in orders in the next two years**, driven by 143 ALH for the Army/IAF, Su-30 upgrades and 40 Do-228 upgrades ▪ **LCA Mk1A**: Targeted delivery of **~20 aircraft in FY27E**; GE has committed to supplying 15–20 engines, with deliveries slated to begin between August and September ▪ **HTT-40 Trainer**: Supply chain issues with Honeywell engines have stabilised, paving the way for targeted deliveries of **20+ units in FY27E** via two active production lines ▪ **Tejas Mk2 & Engines**: Prototype rollout for Tejas Mk2 is scheduled for the **last quarter of FY27E (by March)**, with GE-414 engine orders anticipated in approximately two years ▪ **Sukhoi-30**: Execution of the 12 Su-30 aircraft order will begin in FY28, while the broader Su-30 upgrade is currently a **5–6-year design programme,** expecting CCS approval this year ▪ **Advanced Programmes**: Uttam radar integration is planned for the incoming 97 LCA programme batch. A rotary UAV prototype is in ground-testing and the **CATS Warrior UAV flight is expected next year** ▪ **Capex Vision 2030**: Planned investment of **INR 12,000 Cr by 2030** to construct manufacturing infrastructure for LCA Mk2, IMRH engines and SSLV projects ▪ **Strategic Partnerships**: Signed industrialisation agreements with Safran for LEAP engine parts, secured a non-exclusive licence to manufacture the SSLV from ISRO and signed an MoU for producing SJ-100 commuter aircraft in India

Source: Choice Institutional Equities

High-conviction Ideas

Particulars (INR Bn)	FY26	FY27E	FY28E	FY29E
Revenue	276.1	323.3	379.2	445.6
YoY Growth (%)	16.2	17.1	17.3	17.5
EBITDA	80.5	97.3	114.5	135.0
EBITDAM (%)	29.2	30.1	30.2	30.3
Adjusted PAT	60.6	75.1	89.4	104.8
EPS	8.3	10.3	12.2	14.3
ROE %	27.6	28.2	27.6	26.7
ROCE %	26.2	26.8	26.3	25.5
PE(x)	49.0	39.6	33.2	28.4
Price to BV (x)	12.4	10.2	8.4	6.9

Source: BHE, Choice Institutional Equities

Bharat Electronics Ltd | Rating: BUY | Target Price – INR 500

Steady Performance; Higher Indigenisation Supports Margin

BHE delivered a strong FY26 performance, meeting guidance with **16% revenue growth and margin expansion (EBITDA ~30%)**, reinforcing execution strength. We believe that the key takeaway from the conference call is **continued stability in core operations**, driven by favourable product mix and **structurally high indigenisation (80–85%).** This remains the primary lever for margin resilience. The management is expecting **order inflow of more than INR 550 Bn this year**, indicating a strong pickup ahead.

More importantly, our conviction strengthens around BHE's medium-term positioning, with a **strong order pipeline across QRSAM (near-term), P-75(I), next-gen corvettes, EW systems and other large programmes**. The ongoing shift towards **higher value-add (system-level participation, deeper indigenisation, new tech investments)** should support **margin sustainability**. As the mix shifts toward more **complex, system-driven opportunities**, we expect **earnings quality to strengthen**, reinforcing BHE's positioning as a **structural play on the defence electronics upcycle.**

We maintain our **positive stance** on BHE, underpinned by its strong long-term growth visibility, supported by a robust order book and a healthy pipeline. We continue to expect strong growth (Revenue/EBITDA/PAT CAGR of 17.4%/ 17.8%/ 18.1% over FY27–29E) and retain our '**BUY' rating**. We value the stock at **40x FY28E EPS**. Accordingly, we **revise our TP to INR 500**

Particulars (INR Mn)	FY26	FY27E	FY28E	FY29E
Revenue	24,418	37,027	61,036	91,464
YoY Growth (%)	(27.0)	51.6	64.8	49.9
EBITDA	2,234	6,961	11,536	17,378
EBITDAM (%)	9.1	18.8	18.9	19.0
Adjusted PAT	4,203	8,313	13,694	20,545
EPS	11.5	22.7	37.4	56.0
ROE %	9.9	17.1	22.9	26.6
ROCE %	5.3	10.6	13.4	15.6
P/E(x)	107.0	54.1	32.8	21.9
P/BV (x)	10.6	9.3	7.5	5.8

Source: BDL, Choice Institutional Equities

Bharat Dynamics Ltd | Rating: BUY | Target Price – INR 1,500

Near-term Slippage; Low Base Underpins Recovery

BDL reported a weak set of numbers in Q4FY26, with a **sharp decline in revenue and profitability**, leading to a **~27% degrowth in the top line for the full year**. Given the **absence of management commentary**, visibility on the exact reasons for the slowdown remains limited; however, we believe the nature of the business suggests **timing-related deferrals rather than structural issues**.

Despite the weak performance in FY26, we believe the underlying growth drivers remain intact, supported by a strong order pipeline across key missile programmes, such as **MRSAM, QRSAM, Astra and Akash, Akash-NG, VL-SRSAM, Nag, HELINA and MPATGM**. These programmes, along with increasing opportunities in exports and indigenisation, provide multi-year revenue visibility. Importantly, we expect execution to be driven by ramp-up across **MRSAM/LRSAM orders, initial production of QRSAM and continued deliveries in Astra and Akash-NG programmes**, which should support revenue conversion in the next two years. The decline in FY26 creates a low base and, as execution normalises, we expect a **sharp recovery in earnings over FY27–FY28E**, supported by order conversion and operating leverage.

We have recalibrated our estimate to factor in the weaker base, while maintaining a **strong growth trajectory over the next two years**. Accordingly, we **revise our target price to INR 1,500**, based on **40x FY28E EPS**, reflecting continued confidence in the **long-term opportunity despite near-term volatility**. We maintain our **'BUY' rating** on the stock, with earnings recovery contingent on execution ramp-up over the next few quarters.

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
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UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

***Large Cap: More Than INR 20,000 Cr Market Cap**
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Q4FY26 Quarterly Result Review

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