

India

ADD (no change)

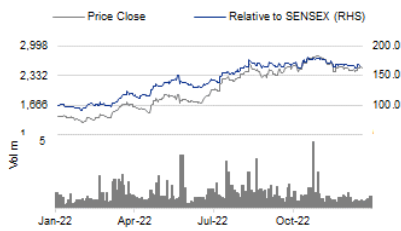
Consensus ratings*: Buy 9 Hold 0 Sell 1

| | |
|------------------------------|---------------------------|
| Current price: | Rs2,521 |
| Target price: | Rs2,970 ▲ |
| Previous target: | Rs2,515 |
| Up/downside: | 17.8% |
| InCred Research / Consensus: | -5.4% |
| Reuters: | |
| Bloomberg: | HNAL IN |
| Market cap: | US\$11,610m Rs843,024m |
| Average daily turnover: | US\$35.5m Rs2579.6m |
| Current shares o/s: | 334.4m |
| Free float: | 24.9% |

*Source: Bloomberg

Key changes in this note

- Raise FY23F-24F sales by 3%/4%.
- Raise FY24F EBITDA by 7.5%.
- Raise FY24F PAT by 9%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|-------|------|
| Absolute (%) | 3.3 | 0.7 | 77.4 |
| Relative (%) | 2.7 | (0.4) | 70.5 |

| Major shareholders | % held |
|--------------------|--------|
| Promoter | 75.2 |
| LIC | 7.7 |
| HDFC Mutual Fund | 4.5 |

Analyst(s)



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Hindustan Aeronautics Ltd

Solid order pipeline to ensure revenue visibility

- HAL's management cited strong order pipeline of Rs420bn over FY23F-24F with a further order pipeline of Rs600bn over the next three-to-four years.
- Exports to be a growth driver for the company but unlikely to have a meaningful contribution in FY23F-24F. RoH to be a key growth driver in FY23F-24F.
- Reiterate ADD rating on the stock with a higher target price of Rs2,970.

Order pipeline provides long-term revenue and earnings visibility

Hindustan Aeronautics or HAL expects manufacturing order inflows worth Rs420bn over FY23F-24F which includes 70 units of Hindustan Turbo Trainer-40 (HTT-40) worth ~Rs65bn, 25 units of advanced light helicopter (ALH), 12 units of Sukhoi-30 (SU-30) worth Rs100bn, 12 units of light utility helicopter (LUH), six units of Do-228, and 240 AL-31 FP engines. HAL expects another Rs600bn worth of orders which includes 140 LCH, 175 LUH, 60 utility helicopter maritime (UHM), 36 HTT-40 and 60 RD-33 engine orders over three-to-five years.

Exports to be new growth driver in medium term

While the export order from Malaysia for its LCA could be on hold, HAL is also pushing other platforms like ALH and LCH for exports to Nepal, Bangladesh, the Philippines and the UAE. HAL is also pushing these products to other countries like Namibia, Mauritius, Vietnam, Thailand and Nigeria. The company has a target to generate 10% of sales from exports by FY25F.

RoH to be key growth driver in FY23F-24F

Repair & overhaul (RoH) has been a growth driver for the last few years as it is high-margin and formed 73% of 1HFY23 revenue (63% of FY22 revenue) and the company expects RoH revenue of ~Rs150bn in FY23F. HAL has given guidance of ~12% growth in RoH and the spare parts segment (vs. ~5-6% earlier) and increased its EBITDA margin guidance to 26-27%.

Reiterate ADD rating with a higher target price of Rs2,970

HAL's order pipeline remains solid, but the order finalization timeline is critical to maintain the growth momentum in FY23F-24F. We marginally raise our EPS estimates by 2% for FY24F. We raise our target price to Rs2,970 (Rs2,515 earlier) as we roll over to Mar 2025F EPS (implying a P/E of 18x vs. 16x considering the strong order pipeline, better working capital position and margin profile) and maintain our ADD rating on the stock. Delay in new orders, setback in aircraft delivery and lower margins are key downside risks.

Financial Summary

| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 227,546 | 246,202 | 265,878 | 285,937 | 322,056 |
| Operating EBITDA (Rsm) | 53,469 | 54,128 | 71,718 | 73,780 | 78,404 |
| Net Profit (Rsm) | 32,309 | 50,865 | 51,068 | 52,085 | 55,178 |
| Core EPS (Rs) | 96.6 | 152.1 | 152.7 | 155.8 | 165.0 |
| Core EPS Growth | 19.1% | 57.4% | 0.4% | 2.0% | 5.9% |
| FD Core P/E (x) | 26.09 | 16.57 | 16.51 | 16.19 | 15.28 |
| DPS (Rs) | 30.0 | 40.0 | 40.2 | 41.0 | 43.4 |
| Dividend Yield | 1.19% | 1.59% | 1.59% | 1.62% | 1.72% |
| EV/EBITDA (x) | 14.43 | 12.92 | 9.44 | 8.92 | 8.16 |
| P/FCFE (x) | 10.37 | (31.50) | 27.87 | 25.80 | 25.58 |
| Net Gearing | (46.6%) | (74.5%) | (72.0%) | (68.7%) | (65.6%) |
| P/BV (x) | 5.49 | 4.38 | 3.66 | 3.14 | 2.73 |
| ROE | 22.6% | 29.4% | 24.2% | 20.9% | 19.1% |
| % Change In Core EPS Estimates | | | 9.04% | 1.79% | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Solid order pipeline to ensure revenue visibility

Order pipeline provides long-term revenue & earnings visibility ►

HAL expects manufacturing order inflow worth Rs420bn over FY23F-24F which includes 70 units of Hindustan Turbo Trainer-40 (HTT-40) worth ~Rs70bn, 25 units of advanced light helicopter (ALH), 12 units of Sukhoi-30 (SU-30) worth Rs100bn, 12 units of light utility helicopter (LUH), six units of Do-228, and 240 AL-31 FP engines. HAL expects another Rs600bn worth of orders which includes 145 LCH, 175 LUH, 60 naval utility helicopter (NUH), 36 HTT-40 and 80 RD-33 engines orders over a period of three-to-five years.

Figure 1: Order pipeline in the short term and medium term

| Product | Quantity |
|--|----------|
| Order pipeline in the short term (1-2 years) | |
| Hindustan Turbo Trainer - 40 (HTT- 40) | 70 |
| Advanced Light Helicopter (ALH) | 25 |
| Dornier – 228 (Do-228) Aircraft | 6 |
| Light Utility Helicopter (LUH) | 12 |
| Sukhoi-30 MKI | 12 |
| AL-31 engine | 240 |
| Order pipeline in the medium term (3-5 years) | |
| Light Combat Helicopter (LCH) | 145 |
| LUH | 175 |
| Marine ALH | 60 |
| HTT-40 | 36 |
| RD-33 engine | 80 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Status of orders in the pipeline ►

HAL expects to get orders worth ~Rs360bn (excl. RoH orders) in the next six months out of which orders of Rs150-160bn are likely to materialize in FY23F. Orders that are expected to materialize in FY23F includes HTT-40, ALH, AL-31 FPE engine, and RD-33 engine.

HTT-40: Order award has concluded; the documentation is still pending. HAL is currently preparing to start manufacturing and it has commenced placing orders for its engine and materials. The company expects delivery to commence from Oct 2025F (~20 aircraft/year).

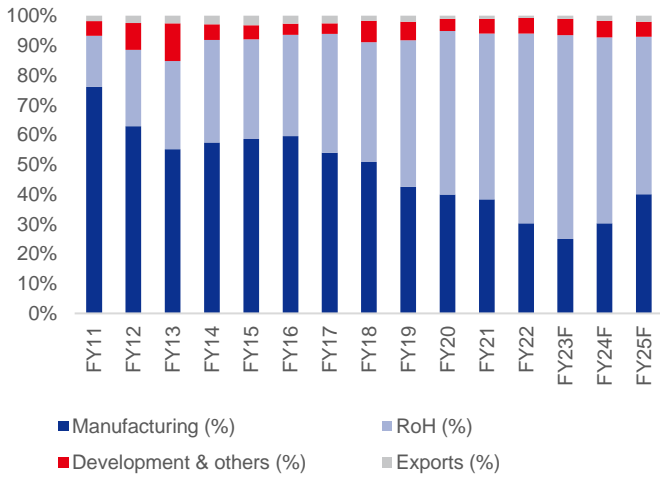
Advanced Light Helicopter (ALH): HAL expects certification in 2HFY23F and it mentioned that order finalization and discussion was at the Prime Minister's Office or PMO level in Nov 2022 and it expects order confirmation by Mar 2023F.

AL-31 FPE engine: RFP was issued and accordingly submitted. Expect negotiations to commence this month and order finalization by Mar 2023F. HAL expects to commence delivery from FY24F.

Dornier-228 aircraft: Aircraft has been civil certified. HAL is already working on six Dornier aircraft and awaits order confirmation to commence delivery.

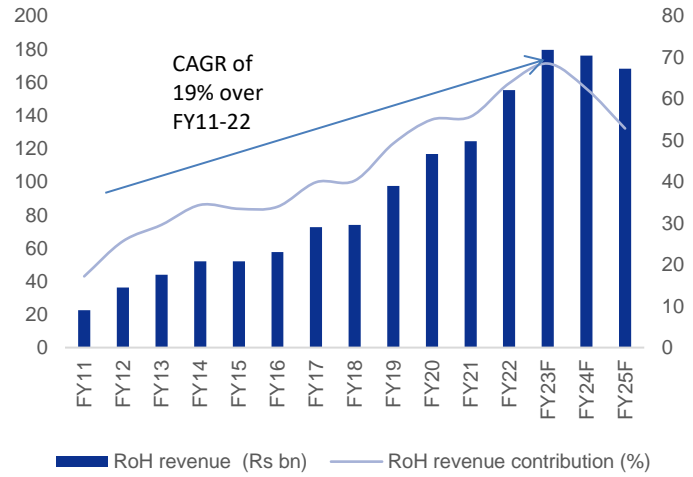
LUH and Sukhoi-30 MKI: Discussions are at an advanced stage to get additional orders. HAL is preparing itself and not waiting for the order award to get concluded. It has started provisioning of materials and will also try to commence manufacturing activity.

Figure 2: Declining share of manufacturing sales is expected to pick up from FY25F; services sales' share inched up



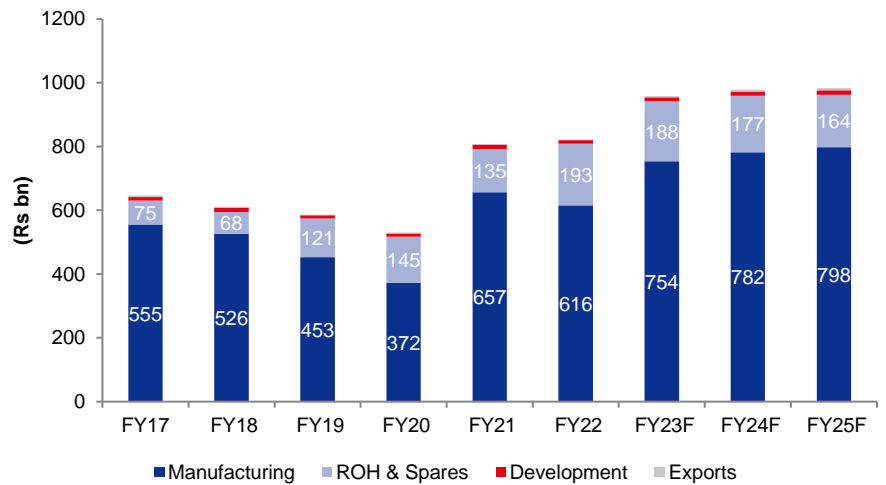
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Services sales grew at a 19% CAGR over FY11-22, although growth may moderate in FY24F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Large order finalization over FY21-25F to boost order backlog



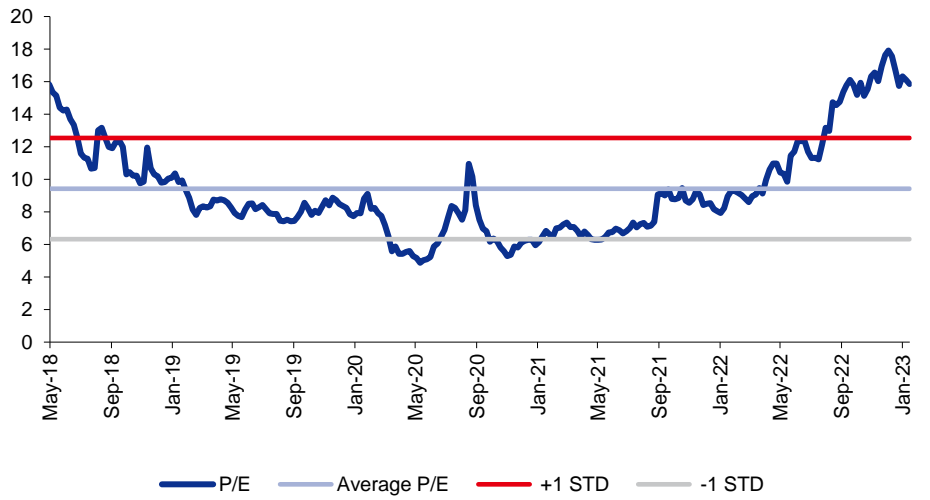
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision summary

| (Rs m) | Old estimates | | | New estimates | | | Change (%) | | |
|----------|---------------|----------|----------|---------------|----------|----------|------------|-------|-------|
| | FY23F | FY24F | FY25F | FY23F | FY24F | FY25F | FY23F | FY24F | FY25F |
| Revenue | 2,58,337 | 2,75,432 | 3,05,905 | 2,65,878 | 2,85,937 | 3,22,056 | 2.9% | 3.8% | 5.3% |
| EBITDA | 62,892 | 68,659 | 77,900 | 71,718 | 73,780 | 78,404 | 14.0% | 7.5% | 0.6% |
| Core PAT | 43,702 | 47,769 | 54,207 | 51,068 | 52,085 | 55,178 | 16.9% | 9.0% | 1.8% |

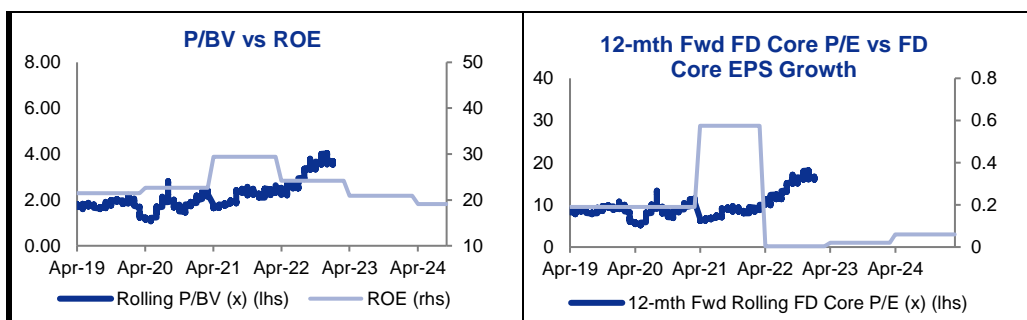
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: One-year forward P/E ratio is above +1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenue | 227,546 | 246,202 | 265,878 | 285,937 | 322,056 |
| Gross Profit | 117,034 | 146,160 | 150,221 | 158,695 | 170,690 |
| Operating EBITDA | 53,469 | 54,128 | 71,718 | 73,780 | 78,404 |
| Depreciation And Amortisation | (11,776) | (11,099) | (12,243) | (12,939) | (13,611) |
| Operating EBIT | 41,693 | 43,030 | 59,475 | 60,841 | 64,793 |
| Financial Income/(Expense) | (2,591) | (581) | (100) | (100) | (100) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 3,587 | 9,863 | 9,172 | 9,172 | 9,372 |
| Profit Before Tax (pre-EI) | 42,689 | 52,312 | 68,547 | 69,913 | 74,065 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 42,689 | 52,312 | 68,547 | 69,913 | 74,065 |
| Taxation | (10,379) | (1,447) | (17,480) | (17,828) | (18,887) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 32,309 | 50,865 | 51,068 | 52,085 | 55,178 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 32,309 | 50,865 | 51,068 | 52,085 | 55,178 |
| Recurring Net Profit | 32,309 | 50,865 | 51,068 | 52,085 | 55,178 |
| Fully Diluted Recurring Net Profit | 32,309 | 50,865 | 51,068 | 52,085 | 55,178 |

Cash Flow

| (Rs m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|----------------------------------|-----------------|------------------|-----------------|-----------------|-----------------|
| EBITDA | 53,469 | 54,128 | 71,718 | 73,780 | 78,404 |
| Cash Flow from Invt. & Assoc. | (10,760) | (1,817) | (3,170) | (3,867) | (4,339) |
| Change In Working Capital | 91,651 | 12,589 | (21,158) | (20,444) | (23,932) |
| (Incr)/Decr in Total Provisions | 115 | 56 | | | |
| Other Non-Cash (Income)/Expense | 12,414 | 12,863 | 12,243 | 12,939 | 13,611 |
| Other Operating Cashflow | 11,282 | 37,332 | | | |
| Net Interest (Paid)/Received | (1,711) | 3,662 | 9,072 | 9,072 | 9,272 |
| Tax Paid | (7,186) | (10,532) | (17,480) | (17,828) | (18,887) |
| Cashflow From Operations | 152,696 | 100,958 | 33,080 | 35,508 | 35,585 |
| Capex | (7,619) | (7,989) | (12,000) | (12,000) | (12,000) |
| Disposals Of FAs/subsidiaries | 12 | 32 | | | |
| Acq. Of Subsidiaries/investments | (504) | (2,448) | | | |
| Other Investing Cashflow | (4,699) | (117,229) | 9,172 | 9,172 | 9,372 |
| Cash Flow From Investing | (12,811) | (127,634) | (2,828) | (2,828) | (2,628) |
| Debt Raised/(repaid) | (58,598) | (91) | | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (10,032) | (13,376) | (13,429) | (13,696) | (14,510) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (2,620) | (24) | (100) | (100) | (100) |
| Cash Flow From Financing | (71,249) | (13,491) | (13,529) | (13,796) | (14,610) |
| Total Cash Generated | 68,637 | (40,167) | 16,723 | 18,884 | 18,347 |
| Free Cashflow To Equity | 81,288 | (26,767) | 30,252 | 32,681 | 32,957 |
| Free Cashflow To Firm | 142,477 | (26,095) | 30,352 | 32,781 | 33,057 |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
| Total Cash And Equivalents | 71,663 | 143,436 | 165,815 | 184,699 | 203,047 |
| Total Debtors | 56,394 | 46,416 | 58,275 | 62,671 | 70,588 |
| Inventories | 165,603 | 143,636 | 160,255 | 172,345 | 194,116 |
| Total Other Current Assets | 119,043 | 138,826 | 149,920 | 161,231 | 181,597 |
| Total Current Assets | 412,703 | 472,313 | 534,265 | 580,946 | 649,347 |
| Fixed Assets | 95,598 | 92,300 | 92,057 | 91,118 | 89,507 |
| Total Investments | 9,891 | 12,941 | 12,941 | 12,941 | 12,941 |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | | | | | |
| Total Non-current Assets | 105,490 | 105,242 | 104,999 | 104,060 | 102,449 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 22,462 | 25,598 | 26,224 | 28,202 | 31,764 |
| Other Current Liabilities | 342,599 | 364,972 | 382,761 | 388,136 | 410,695 |
| Total Current Liabilities | 365,060 | 390,570 | 408,984 | 416,338 | 442,460 |
| Total Long-term Debt | 91 | | | | |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | | | | | |
| Total Non-current Liabilities | 91 | | | | |
| Total Provisions | | | | | |
| Total Liabilities | 365,151 | 390,570 | 408,984 | 416,338 | 442,460 |
| Shareholders Equity | 153,566 | 192,640 | 230,279 | 268,668 | 309,337 |
| Minority Interests | | | | | |
| Total Equity | 153,566 | 192,640 | 230,279 | 268,668 | 309,337 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
| Revenue Growth | 6.1% | 8.2% | 8.0% | 7.5% | 12.6% |
| Operating EBITDA Growth | 10.0% | 1.2% | 32.5% | 2.9% | 6.3% |
| Operating EBITDA Margin | 23.5% | 22.0% | 27.0% | 25.8% | 24.3% |
| Net Cash Per Share (Rs) | 214.04 | 428.95 | 495.88 | 552.35 | 607.22 |
| BVPS (Rs) | 459.25 | 576.10 | 688.66 | 803.46 | 925.08 |
| Gross Interest Cover | 16.09 | 74.01 | 594.75 | 608.41 | 647.93 |
| Effective Tax Rate | 24.3% | 2.8% | 25.5% | 25.5% | 25.5% |
| Net Dividend Payout Ratio | 31.0% | 26.3% | 26.3% | 26.3% | 26.3% |
| Accounts Receivables Days | 138.13 | 76.21 | 71.86 | 77.19 | 75.51 |
| Inventory Days | 594.74 | 564.12 | 479.52 | 477.04 | 441.84 |
| Accounts Payables Days | (104.62) | (87.67) | (81.77) | (78.06) | (72.30) |
| ROIC (%) | 58.2% | 140.6% | 115.4% | 85.7% | 69.4% |
| ROCE (%) | 24.3% | 24.9% | 28.1% | 24.4% | 22.4% |
| Return On Average Assets | 6.7% | 9.4% | 8.4% | 7.9% | 7.7% |

| Key Drivers | | | | | |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
| Manufacturing | 85,640 | 73,750 | 65,540 | 85,530 | 127,450 |
| yoy growth (%) | 1 | (14) | (11) | 31 | 49 |
| RoH | 124,595 | 155,359 | 179,533 | 176,142 | 168,198 |
| yoy growth (%) | 7 | 25 | 16 | (2) | (5) |
| Total Sales | 227,546 | 247,465 | 265,878 | 285,937 | 322,056 |
| Book to bill ratio | 4 | 4 | 4 | 4 | 3 |
| Order backlog | 806,390 | 821,540 | 958,119 | 978,539 | 983,139 |
| yoy growth (%) | 52 | 2 | 17 | 2 | N/A |
| EBITDA margin | 23 | 22 | 27 | 26 | 24 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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