

India

**ADD** (no change)

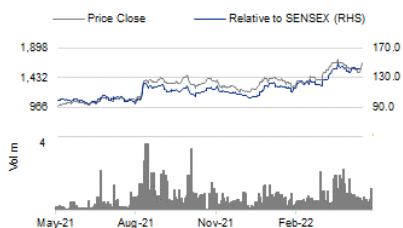
Consensus ratings\*: Buy 7 Hold 0 Sell 0

Current price:	Rs1,757
Target price:	Rs2,025
Previous target:	Rs1,530
Up/downside:	15.3%
InCred Research / Consensus:	5.2%
Reuters:	HIAE.NS
Bloomberg:	HNAL IN
Market cap:	US\$7,577m Rs587,586m
Average daily turnover:	US\$15.2m Rs1175.6m
Current shares o/s:	334.4m
Free float:	24.9%

\*Source: Bloomberg

**Key changes in this note**

- Raise FY23F-24F sales by 1-8%.
- Raise FY23F-24F EBITDA by 4-21%.
- Raise FY23F-24F PAT by 9-32%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.1	30.6	73.9
Relative (%)	10.6	37.5	61.8

Major shareholders	% held
Promoter	75.2
LIC	8.6
HDFC Mutual Fund	4.5

**Analyst(s)**



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# Hindustan Aeronautics Ltd

## Strong margin performance to sustain

- HAL's 4Q EBITDA margin (excluding one-off) was above our estimate despite sales miss. Improved working capital and cash flow are positive surprises.
- Weakness in manufacturing sales to be offset by continued strong momentum in repair and overhaul sales. HAL to sustain strong margin performance.
- Retain our Add rating on HAL with a higher TP of Rs2,025 (Rs1,530 earlier).

### Excluding one-off, sales miss was offset by higher EBITDA margin

Hindustan Aeronautics Ltd or HAL's reported 4QFY22 sales (+7.7% yoy), EBITDA margin at 21.6% (-376bp yoy) and PAT (+92% yoy) were influenced by a number of one-offs which are: a) sales include Rs12.8bn differential sales on finalization of fixed-price contracts, b) provision booked to the tune of Rs12.7bn relating to changed order for Tejas contract and Intermediate Jet Trainer (IJT) project, and c) favourable income-tax ruling aiding other income by Rs2.6bn and tax provision write-back of Rs12bn. Excluding one-offs, 4Q sales (-4% yoy) were 6.5% below our estimate, EBITDA margin at 24.2% (-120 bp yoy) was better than our estimate of 22.8% (aided by improved gross margin), and PBT (+7% yoy) was 12% above our estimate on higher other income.

### FY23F sales growth to be led by RoH; margins to be maintained

FY22 weak manufacturing sales (-14% yoy) were offset by a 25% yoy growth in repair & overhaul (ROH) revenue (accounting for 64% of FY22 sales). Despite weakness in manufacturing sales (plans to produce 40 aircraft in FY23F vs. 44 in FY22), the company has given guidance of a 6% growth in FY23F due to higher RoH revenue (expects RoH of 246 aircraft in FY23F vs. 203 in FY22). HAL expects double-digit sales growth only from FY25F. HAL has been confident of maintaining ~25%-26% EBITDA margin considering long-term agreements signed with an escalation clause with customers as well as vendors.

### Working capital improves further

HAL expects an order for 240 SU-30 engines and 80 RD-33 engines worth Rs300-330bn to be finalized in FY23F, apart from an order pipeline for 70 numbers of Hindustan Turbo Trainer-40 (HTT-40), 25 numbers of advanced light helicopter (ALH), 12 numbers of Sukhoi-30 (SU-30), and 12 numbers of light utility helicopter (LUH). Net working capital (ex-cash) showed further improvement as it stood at a negative 91 days of sales in FY22 vs. -39 days of sales in FY21 led by control on inventory and receivable days.

### Reiterate Add rating

Considering better-than-estimated RoH orders and better-than-estimated margins, we raise our EBITDA by 21%/4% for FY23F/FY24F. Order pipeline remains solid, but order finalization timeline is critical to maintain growth momentum in FY23F-24F. We raise our TP to Rs2,025 as we roll over to Jun 2024F EPS (implying a P/E of 14x vs. 12x considering 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-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	214,384	227,546	246,202	257,055	272,610
Operating EBITDA (Rsm)	48,621	53,469	54,128	62,340	67,437
Net Profit (Rsm)	27,134	32,309	50,865	43,302	46,618
Core EPS (Rs)	81.1	96.6	152.1	129.5	139.4
Core EPS Growth	19.0%	19.1%	57.4%	(14.9%)	7.7%
FD Core P/E (x)	21.65	18.19	11.55	13.57	12.60
DPS (Rs)	33.3	30.0	40.0	40.2	43.3
Dividend Yield	1.89%	1.71%	2.28%	2.29%	2.46%
EV/EBITDA (x)	13.21	9.65	8.21	6.98	6.30
P/FCFE (x)	30.05	7.23	6.78	26.12	23.45
Net Gearing	41.5%	(46.6%)	(74.5%)	(68.5%)	(64.0%)
P/BV (x)	4.45	3.83	3.05	2.64	2.31
ROE	21.5%	22.6%	29.4%	20.9%	19.5%
% Change In Core EPS Estimates				31.67%	9.35%
InCred Research/Consensus EPS (x)				1.23	1.18

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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## Strong margin performance to sustain

### Key takeaways from conference call ►

- **Order execution in FY23F:** HAL manufactured 36 aircraft and sold 44 aircraft in FY22. It plans to manufacture 40 aircraft in FY23F by executing the order of 6 LCA, 3 LCH (limited series production order), 9 ALH, 6 engines, upgrade for 4 Jaguars, 9 Mirage and 3 Do-228 during FY23F. LCA-Mk1A order would be executed over six years, starting from FY24F. HAL would be executing orders for 9 ALH during FY23F, along with starting work on a new order of 25 ALH to be received from the army during FY23F. Out of the order for 8 LCA trainer aircraft, HAL would be delivering 4 aircraft each in FY23F and FY24F (two LCA FOC deliveries were pending and will be completed in due course). HAL expects 12 limited-series production LUH order in FY23F and to be executed in FY23F-24F. HAL booked revenue for 3 LCH in FY22. The company expects 246 aircraft RoH in FY23F, which includes Su-30, Jaguars, Mirages, Kiran, Dornier 228, Averroes, ALH, Chetak, and Cheetahs.
- **Order inflow:** Orders worth Rs259bn were received in FY22 (mostly 15 LCH orders and repair & overhaul, and spare part orders) and would be executed by FY23F. Order for 240 SU-30 engines and 80 RD-33 engines worth Rs300-330bn would be finalized in FY23F. HTT-40 worth Rs70bn, and an order for 12 SU30 (expected by year-end) are in the process of getting finalized. Next larger orders for LCH/LUH of about 150/190 numbers, respectively, would be finalized in two years post-testing with limited-series production helicopters. HAL has discussed with Indian Navy for ALH version of Naval Utility Helicopter (NUH) and expects to finalize all specifications in two months as the qualification requirement is finalized by Indian Navy. HAL expects an initial order for 40 NUH out of 100 NUH to be ordered.
- **Guidance:** HAL expects revenue growth of 6% in FY23F, and double-digit growth from FY25F. It is confident of maintaining EBITDA margin of 25%-26% and operating margin of 16%-17% in FY23F due to internal efficiency and better bargaining power with the vendors. HAL expects over 10% sales growth in FY25F-26F.
- **Exposure to Russian supplies:** HAL has an exposure of Rs60bn to Russian platforms and support in revenue terms. The company is carrying inventory of six months for related orders and the payment line is already open now. So, we don't expect any disruption in supply of spare parts. One of the LCA parts is imported from Ukraine, for which the company has alternate source available.
- **Indigenization and development expenses:** HAL has earmarked expenses for indigenization and development activities, an increase by 5% from 10% to 15% of the company's profits.
- **ROH and spare parts:** HAL expects robust growth in ROH revenue going ahead. The company booked only one year of firm orders for RoH in the order backlog. It also received advance estimates for further two years of RoH orders. Out of the 270 Su30s in operation, the company did ROH of 21 Su30 aircraft in FY22 and expects it go up to 25 aircraft per year. HAL expects increase in ROH for Su30 aircraft engines to go up from 65 in FY22 to 80-85 in FY23F and ultimately to 105. Average overhaul period of aircraft is done post 2,000 hours or 8-10 years, which can also extend to 15 years. The company expects ROH share in revenue to be 50%-55% in FY23F.
- **Employee expenses:** HAL expects 100bp reduction in employee expenses as a % of sales in FY23F from 19% to 18% and plans to achieve the target of 16% of employee expenses as a % of sales by FY24F-25F. The company is looking to downsize the number of employees from 26k to 22k-23k.
- **Provision:** For the quarter, the company has provided a) Rs10bn for changed order in LCA-IOC contract out of prudence for which it is seeking approval for price variation from the Ministry of Defence, b) impairment in licence fees

towards IJT programme which was reflected in intangible assets to the tune of Rs2.66bn, c) additional provision of Rs5bn for Su30 aircraft which are to be delivered with modifications and additional supply of LRUs, d) warranty provision of Rs1.9bn, and e) liquidated damage/charges amounting to Rs3bn. HAL expects a provision of Rs9.9bn for changed order of LCA-IOC and would be reversed once it receives the final approval for the changed contract. The company is confident of getting back Rs3bn for liquidated damages with approval of time extension.

- **Hindustan 228-201 aircraft:** HAL has got type certification for Hindustan 228 (which are the company's modified versions of Do-228 with lot of modifications) which are placed in Udaan schemes (already got one order) and expects to get further orders for civilian aircraft in India as well as overseas.
- **Export orders:** Currently, the company is focusing on Indian Ocean region for exports to countries like the Philippines, Malaysia, and Vietnam. HAL would also be looking at exploring the Middle East and North African region (Egypt) and Latin American region afterwards. HAL's ability to meet the specifications, cost competitiveness and its differentiating strategy of providing repair and overhaul service in the respective country itself would help it compete with global players.
- **Tejas manufacturing capacity:** Currently, the company has a manufacturing capacity for 8 Tejas, which would be increased to 16 and can be extended to 20 if export orders are received.
- **Dividend policy:** HAL would be paying minimum mandatory dividend of 30% of PAT or 5% of networth, whichever is lower, with further additional dividend subject to capex and development programme requirements.
- **Effect of the rise in commodity prices:** HAL is not impacted by the rise in commodity prices because it has entered into long-term purchase agreements with customers (at base year) which are also linked to various indices to take care of any escalation parameters, while the company has also entered into back-to-back contracts with vendors which nullify any impact. There is also an exchange rate variation clause in the contracts where customers reimburse all the expenses relating to the foreign exchange rate variation at cutoff date every year.

**Figure 1: Standalone quarterly analysis**

YE March (Rs m)	4QFY22	4QFY21	yoy % chg	3QFY22	qoq % chg	FY22	FY21	yoy % chg	4QFY22F	Actual vs. Our Estimate
<b>Total Revenue</b>	<b>1,15,610</b>	<b>1,07,382</b>	<b>7.7%</b>	<b>58,918</b>	<b>96.2%</b>	<b>2,46,202</b>	<b>2,27,546</b>	<b>8.2%</b>	<b>1,10,114</b>	<b>5%</b>
Less:										
Net Raw Material consumed	46,387	60,807	(23.7%)	29,738	56.0%	1,00,042	1,10,512	(9.5%)	63,087	-26%
Other Expenses	17,698	8,751	102.2%	4,234	318.0%	33,572	20,655	62.5%	8,296	113%
Personnel Cost	13,988	10,586	32.1%	10,659	31.2%	45,898	42,910	7.0%	13,574	3%
<b>Total Expenditure</b>	<b>78,072</b>	<b>80,144</b>	<b>(2.6%)</b>	<b>44,630</b>	<b>74.9%</b>	<b>1,79,513</b>	<b>1,74,077</b>	<b>3.1%</b>	<b>84,957</b>	<b>0%</b>
<b>EBIDTA</b>	<b>37,539</b>	<b>27,238</b>	<b>37.8%</b>	<b>14,287</b>	<b>162.7%</b>	<b>66,689</b>	<b>53,469</b>	<b>24.7%</b>	<b>25,157</b>	<b>49%</b>
Less: Depreciation	3,823	6,679	(42.8%)	3,733	2.4%	11,099	11,776	(5.7%)	6,378	-40%
<b>EBIT</b>	<b>33,715</b>	<b>20,560</b>	<b>64.0%</b>	<b>10,554</b>	<b>219.5%</b>	<b>55,591</b>	<b>41,693</b>	<b>33.3%</b>	<b>18,779</b>	<b>80%</b>
Less: Interest paid	421	298	41.1%	8	5512.0%	581	2,591	(77.6%)	10	4331%
Non-operating Income	5,005	1,318	279.8%	1,967	154.5%	9,863	3,587	175.0%	1,675	199%
Extraordinary Expense										
<b>Profit Before Tax</b>	<b>38,300</b>	<b>21,599</b>	<b>77.3%</b>	<b>12,514</b>	<b>206.1%</b>	<b>64,873</b>	<b>42,709</b>	<b>51.9%</b>	<b>20,444</b>	<b>87%</b>
<b>Profit Before Tax Excl. extra-ordinaries</b>	<b>38,300</b>	<b>21,579</b>	<b>77.5%</b>	<b>12,514</b>	<b>206.1%</b>	<b>64,873</b>	<b>42,689</b>	<b>52.0%</b>	<b>20,444</b>	<b>87%</b>
Less: Total Tax	-5,281	5,451	(196.9%)	3,138	(268.3%)	1,447	10,379	(86.1%)	5,262	-200%
<b>Reported PAT</b>	<b>43,581</b>	<b>16,148</b>	<b>169.9%</b>	<b>9,375</b>	<b>364.8%</b>	<b>63,426</b>	<b>32,330</b>	<b>96.2%</b>	<b>15,182</b>	<b>187%</b>
<b>Profit After Tax Excl. extra-ordinaries</b>	<b>43,581</b>	<b>16,128</b>	<b>170.2%</b>	<b>9,375</b>	<b>364.8%</b>	<b>63,426</b>	<b>32,309</b>	<b>96.3%</b>	<b>15,182</b>	<b>187%</b>
Diluted Shares Outstanding (mn)	334	334		334		334	334		334	
Reported EPS-Diluted (Rs.)	130.3	48.3	169.9%	28.0	364.8%	189.7	96.7	96.2%	45.4	187%
<b>Adjusted EPS Diluted (Rs.)</b>	<b>130.3</b>	<b>48.2</b>	<b>170.2%</b>	<b>28.0</b>	<b>364.8%</b>	<b>189.7</b>	<b>96.6</b>	<b>96.3%</b>	<b>45.4</b>	<b>187%</b>
<b>Margin Analysis</b>			<b>yoy bp chg</b>		<b>qoq bp chg</b>			<b>yoy bp chg</b>		
Raw Material % of Total Revenue	40.1%	56.6%	-1650	50.5%	-1035	40.6%	48.6%	-793	57.3%	
Other Expenses % of Total Revenue	15.3%	8.1%	716	7.2%	812	13.6%	9.1%	456	7.5%	
Personnel % of Total Revenue	12.1%	9.9%	224	18.1%	-599	18.6%	18.9%	-22	12.3%	
<b>EBIDTA Margin</b>	<b>32.5%</b>	<b>25.4%</b>	<b>710</b>	<b>24.2%</b>	<b>822</b>	<b>27.1%</b>	<b>23.5%</b>	<b>359</b>	<b>22.8%</b>	
EBIT Margin	29.2%	19.1%	1002	17.9%	1125	22.6%	18.3%	426	17.1%	
PBT Margin (%)	33.1%	20.1%	1301	21.2%	1189	26.3%	18.8%	758	18.6%	
<b>Proforma NPM</b>	<b>37.7%</b>	<b>15.0%</b>	<b>2268</b>	<b>15.9%</b>	<b>2178</b>	<b>25.8%</b>	<b>14.2%</b>	<b>1156</b>	<b>13.8%</b>	
Effective Tax Rate (%)	-13.8%	25.2%	-3903	25.1%	-3887	2.2%	24.3%	-2207	25.7%	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Balance sheet**

Balance sheet (Rs m)	FY18	1HFY19	FY19	1HFY20	FY20	1HFY21	FY21	1HFY22	FY22
<b>Shareholders' funds:</b>									
Share capital	3,344	3,344	3,344	3,344	3,344	3,344	3,344	3,344	3,344
Reserves and Surplus	1,16,990	1,22,871	1,17,411	1,28,652	1,28,807	1,36,039	1,50,222	1,60,965	1,89,296
LOAN FUNDS	2,042	1,213	41,162	58,865	57,752	43,324	91	38	-
<b>TOTAL</b>	<b>1,22,376</b>	<b>1,27,428</b>	<b>1,61,917</b>	<b>1,90,861</b>	<b>1,89,903</b>	<b>1,82,707</b>	<b>1,53,656</b>	<b>1,64,347</b>	<b>1,92,640</b>
<b>APPLICATION OF FUNDS</b>									
Fixed Assets (Incl. CWIP)	90,239	91,310	89,533	93,916	93,900	96,506	95,598	98,615	92,300
Investments	9,894	10,084	9,018	9,402	9,402	9,931	9,891	10,503	12,941
Deferred Tax Assets (Net)	(9,776)	(9,550)	2,593	4,701	4,626	2,015	524	(308)	5,656
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>									
Inventories	1,93,752	2,23,760	1,97,645	1,94,539	1,94,600	2,05,929	1,65,603	1,77,292	1,43,636
Sundry Debtors	77,416	98,451	1,24,465	1,15,930	1,15,074	1,05,495	56,394	54,885	46,416
Cash and Bank balances	58,643	7,253	954	2,979	2,979	1,982	71,663	1,35,633	1,43,436
Other current assets	54,159	67,152	82,579	1,09,957	1,09,935	1,11,282	1,18,436	1,19,657	1,38,683
Loans and Advances	1,175	1,138	756	672	690	699	607	175	143
<b>Total Current Assets</b>	<b>3,85,145</b>	<b>3,97,753</b>	<b>4,06,399</b>	<b>4,24,078</b>	<b>4,23,279</b>	<b>4,25,388</b>	<b>4,12,703</b>	<b>4,87,641</b>	<b>4,72,313</b>
Less: Current Liabilities and Provisions									
Current Liabilities	2,99,722	3,13,415	2,85,530	2,78,090	2,78,390	2,91,435	3,13,297	3,77,722	3,27,530
Provisions	53,404	48,754	60,097	63,146	62,912	59,698	51,763	54,383	63,040
<b>Total Current Liabilities</b>	<b>3,53,126</b>	<b>3,62,169</b>	<b>3,45,627</b>	<b>3,41,236</b>	<b>3,41,302</b>	<b>3,51,133</b>	<b>3,65,060</b>	<b>4,32,104</b>	<b>3,90,570</b>
<b>Net Current Assets</b>	<b>32,019</b>	<b>35,584</b>	<b>60,773</b>	<b>82,842</b>	<b>81,977</b>	<b>74,255</b>	<b>47,643</b>	<b>55,536</b>	<b>81,743</b>
<b>TOTAL</b>	<b>1,22,376</b>	<b>1,27,428</b>	<b>1,61,917</b>	<b>1,90,861</b>	<b>1,89,903</b>	<b>1,82,707</b>	<b>1,53,656</b>	<b>1,64,347</b>	<b>1,92,640</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Net working capital (days of sales)**

<b>NWC on days of sales</b>									
Inventory Days	382	435	363	335	331	353	266	277	213
Sundry Debtors Days	153	191	228	199	196	181	90	86	69
Cash & Bank Balance Days	116	14	2	5	5	3	115	212	213
Other Current Assets Days	107	131	152	189	187	191	190	187	206
Loans & Advances	2	2	1	1	1	1	1	0	0
Liabilities Days	591	609	524	479	474	499	503	591	486
Provisions Days	105	95	110	109	107	102	83	85	93
NWC Days	63	69	112	143	140	127	76	87	121
<b>NWC (excl. Cash)</b>	<b>(52)</b>	<b>55</b>	<b>110</b>	<b>137</b>	<b>134</b>	<b>124</b>	<b>-39</b>	<b>-125</b>	<b>-91</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Cash flow statement**

Cash flow statement (Rs m)	1HFY19	FY19	1HFY20	FY20	1HFY21	FY21	1HFY22	FY22
<b>Cash flow from Operating activities</b>								
Profit for the period	6,500	23,466	11,906	28,570	7,649	32,330	10,470	50,865
Adjustments to reconcile net profit to net cash provided by operating activities:								
Income Tax Expense	3,200	13,963	1,133	11,036	2,774	10,379	3,590	1,447
Net (Gain)/Loss on Sale of Property, Plant & Equipment	-0	-6	1	-2	-0	-1	-3	-16
Finance cost	62	-906	1,777	2,840	1,761	2,591	153	25
Interest Income	0	0	-307	0	-297	-880	-1,670	-4,244
Dividend Income	-11	-18	-14	-14	-2	-11	-20	-20
Net (Gain)/Loss on Fair Value Adjustment	16	4	1	4	-5	6	29	31
Depreciation and amortization expense	2,930	12,736	2,814	10,294	3,442	12,414	3,563	12,863
Provision for Diminution in Value of Investments	1	28	4	366	75	115	46	56
Provision for Doubtful Debts	10	72	5	377	59	143	36	10,557
Provision for Doubtful Claims	8	215	8	402	25	302	39	712
Provision for Replacement and Other charges	175	5,132	100	4,400	183	-1,101	1,365	7,873
Provision for Warranty	455	2,219	385	2,138	1,045	3,256	1,930	5,154
Provision for Raw Materials, Stores and Spares and Construction Materials	329	964	1,045	1,806	1,068	4,301	1,383	5,601
<b>Provision for Liquidated Damages</b>	<b>1,871</b>	<b>4,371</b>	<b>1,423</b>	<b>5,215</b>	<b>2,015</b>	<b>4,388</b>	<b>2,930</b>	<b>7,440</b>
<b>Operating Profit Before Working Capital Changes</b>								
Adjustments for Changes in Operating Assets and Liabilities	0	-1,28,252	28,255	-32,744	5,201	91,651	50,651	12,589
Trade Receivables	-35,564	-93,303	33,973	-18,097	15,181	50,767	8,423	6,114
Loans, Financial Assets and Other Assets	-4,181	298	-4,617	-286	-2,975	-2,210	-8,409	-16,166
Inventories	-23,911	1,937	-21,524	1,239	-12,457	24,635	-13,071	17,649
Trade Payables	2,389	9,624	5,273	14,578	-15,432	-18,431	2,383	2,990
<b>Financial Liabilities, Provisions and Other Liabilities</b>	<b>4,662</b>	<b>-46,807</b>	<b>15,150</b>	<b>-30,177</b>	<b>20,885</b>	<b>36,891</b>	<b>61,325</b>	<b>2,002</b>
Cash generated from Operations	-41,061	-66,014	48,535	34,688	24,993	1,59,882	74,492	1,10,933
Income Taxes Paid	-4,888	-10,922	-13,681	-18,199	-3,208	-7,186	-4,727	-10,532
<b>Net Cash from / (used in) Operating Activities</b>	<b>-45,949</b>	<b>-76,936</b>	<b>34,854</b>	<b>16,489</b>	<b>21,785</b>	<b>1,52,696</b>	<b>69,765</b>	<b>1,00,401</b>
<b>Cash flow from Investing activities</b>								
Payment for purchase of Property, Plant & Equipment	-3,097	-10,887	-3,499	-8,908	-3,405	-7,619	-4,618	-7,989
Payment for Purchase of Intangible Assets	-1,081	-3,016	-1,344	-4,905	-1,815	-5,543	-1,914	-7,013
Proceeds from Sale of Property, Plant & Equipment	5	16	5	16	7	12	9	32
Payment for Investment in Joint Ventures	-0	0	-10	-10	0	100	-100	-100
Payment for Investment in Subsidiary	-200	-200	0	0	0	0	0	0
Payment to acquire other non-current Investments	-191	1,048	-740	-740	-604	-604	-658	-2,348
Interest Received	0	0	307	0	297	880	1,670	2,261
Proceeds from maturity of short-term deposits	58,985	65,942	823	1,284	-2	-48	13	-1,12,496
Dividend Received from Joint Ventures	11	18	14	14	2	11	20	20
<b>Net Cash from / (used in) Investing Activities</b>	<b>54,432</b>	<b>52,922</b>	<b>-4,445</b>	<b>-13,250</b>	<b>-5,521</b>	<b>-12,811</b>	<b>-5,578</b>	<b>-1,27,634</b>
<b>Cash flow from Financing Activities</b>								
Short Term Borrowings	-7,428	32,889	-26,334	16,414	-15,502	-58,598	-52	-91
Payment of Lease Liabilities	0	0	0	-1	0	-30	0	-1
Finance cost paid	-62	-1,696	-1,776	-3,483	-1,760	-2,590	-152	-24
Dividend Paid	0	-7,982	0	-13,404	0	-10,032	0	-13,376
<b>Net Cash Flow from / (used in) Financing Activities</b>	<b>-7,490</b>	<b>23,212</b>	<b>-28,110</b>	<b>-574</b>	<b>-17,262</b>	<b>-71,249</b>	<b>-205</b>	<b>-13,491</b>
Forex difference	0	1	0	0	0	0	0	0
<b>Net increase in Cash and Cash Equivalents during the year</b>	<b>994</b>	<b>-802</b>	<b>2,299</b>	<b>2,665</b>	<b>-999</b>	<b>68,637</b>	<b>63,983</b>	<b>-40,723</b>
<b>Cash and Cash Equivalents at the beginning of the year</b>	<b>915</b>	<b>915</b>	<b>114</b>	<b>113</b>	<b>2,778</b>	<b>2,778</b>	<b>71,415</b>	<b>71,415</b>
<b>Closing Cash and Cash Equivalents at the end of the year</b>	<b>1,909</b>	<b>113</b>	<b>2,414</b>	<b>2,778</b>	<b>1,780</b>	<b>71,415</b>	<b>1,35,397</b>	<b>30,691</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

### 4QFY22 results highlights ►

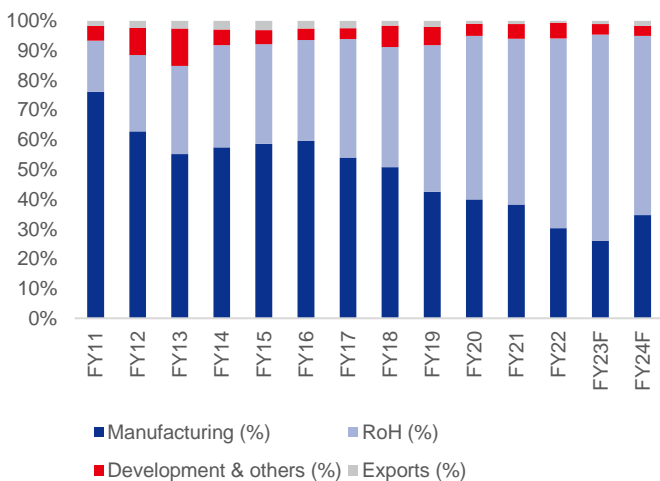
- 4QFY22 sales for the quarter stood at Rs115.6bn (+7.7% yoy), 6% above our estimate. FY22 reported sales at Rs246.2bn were higher than the provisional number of Rs240bn. However, sales include Rs12.8bn differential sales on finalization of fixed-price contracts. Revenue was aided by production of 44 new helicopter/aircraft (vs. 41 in FY21), 84 new engines (vs. 102 in FY21), overhaul of 203 aircraft/helicopter (vs. 198 in FY21) and 478 engines (vs. 506 in FY21).
- 4QFY22 EBITDA at Rs25bn (-8% yoy) was in line with our estimate (13.5% below consensus estimate) as a sharp improvement in gross margin was offset by higher provisioning.
- EBITDA margin at 21.6% (-376bp yoy) was below our estimate of 22.8% (substantially below consensus estimate of 26.4%). Gross margin improved substantially by 16.5% points for the quarter, which was offset by a 3.6x increase in provision (formed 22.6% of 4QFY22 sales vs. 6.8% in 4QFY21).
- Provisions: HAL has provided Rs10bn for changed order in LCA-IOC contract out of prudence for which it is seeking approval for price variation from the Ministry of Defence. HAL has also provided for work-in-progress for five years a sum of Rs2.66bn in case of IJT contract, as per accounting norms.

- Other income was up 3.8x yoy at Rs5bn vs. our estimate of Rs1.7bn which includes one-off interest income of Rs2.6bn on receiving favourable ruling from the income-tax tribunal. Even excluding the one-off, other income has been significantly high, likely aided by solid cash flow. Depreciation was down 43% yoy (+4% qoq).
- Interest expenses were up 41% yoy at Rs421m vs. our estimate of Rs10m.
- PBT stood at Rs25.74bn (up 19% yoy), 26% above our estimate. Excluding one-off in other income, PBT was up 7% yoy at Rs23.1bn (13% above our estimate).
- HAL has excess tax provision write-back of earlier years to the tune of Rs11.9bn.
- Reported PAT at Rs31bn (+92% yoy) was 104% above our estimate. However, excluding one-off in other income and tax write-back, core PAT at Rs16.5bn (+2% yoy) was 8% above our estimate led by higher other income.
- Excluding one-offs, 4Q sales (-4% yoy) were 6.5% below our estimate, EBITDA margin at 24.2% (-120 bp yoy) was better than our estimate of 22.8% (aided by improved gross margin), and PBT (+7% yoy) was 12% above our estimate on higher other income.
- Excluding one-offs, FY22 sales were up 3% yoy, EBITDA margin stood at 23.1% (-37bp yoy) and core PAT was up 12% yoy.

### Balance sheet and cash flow ►

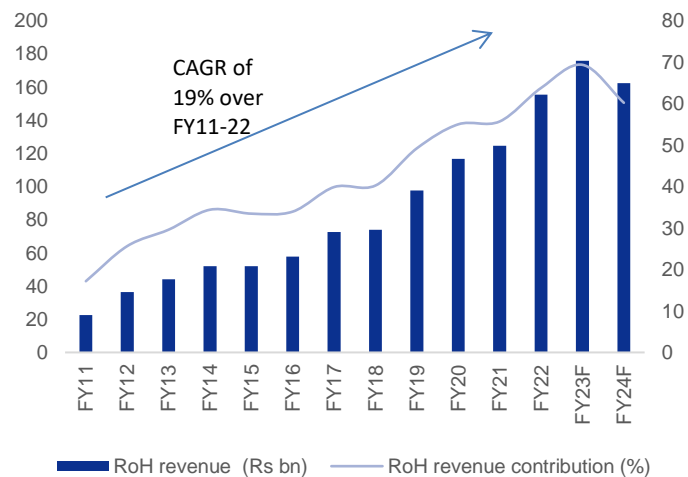
- Net working capital (ex-cash) showed further improvement as it stood at a negative 91 days of sales in FY22 vs. -39 days of sales in FY21 led by control on inventory and receivable days.
- Net cash from operations stood at Rs100bn in FY22 vs. Rs152.7bn in FY21 and Rs16.5bn in FY20 due to better profitability and solid improvement in working capital.
- Net cash further improved to Rs143bn in FY22 vs. Rs71.5bn in FY21.

**Figure 5: Share of manufacturing sales declined over the last few years, but there was an increase in services sales**



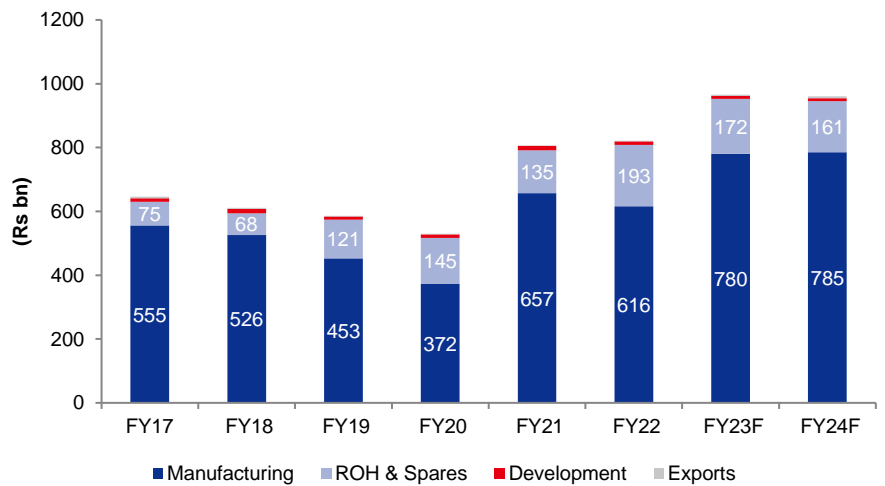
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Services sales grew at a 19% CAGR over FY11-22, although growth may moderate over FY24F**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Large order finalization over FY21-24F to boost order backlog**



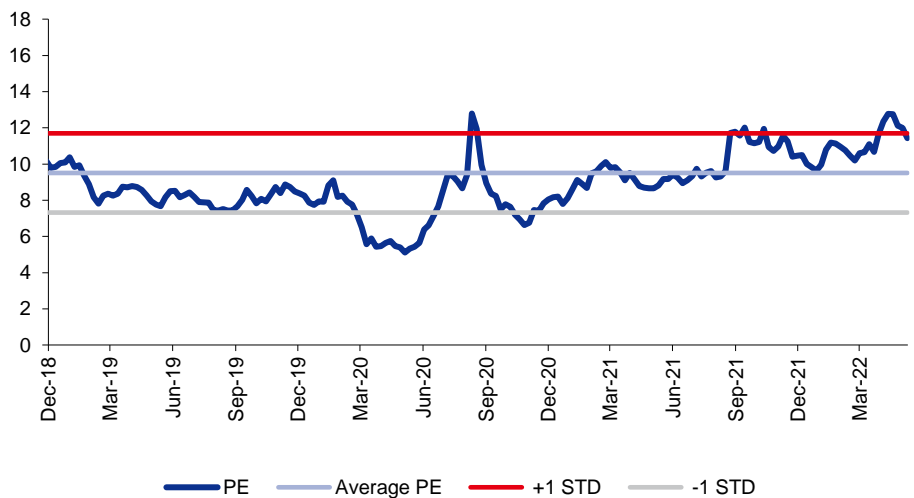
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**Figure 8: Earnings revision summary**

(Rs m)	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	2,37,544	2,76,044	2,57,055	2,72,610	8.2%	-1.2%
EBITDA	51,653	64,853	62,340	67,437	20.7%	4.0%
Core PAT	32,887	42,633	43,302	46,618	31.7%	9.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: One-year forward P/E ratio is just below +1SD**

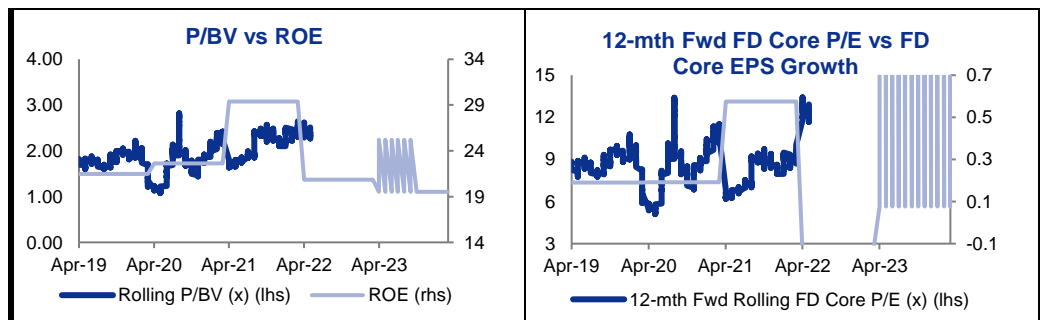


SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 10: Sector comparison**

Company	Bloomberg Ticker	Recom.	Price Rs	TP Rs	Mkt cap (US\$ m)	P/E (x)			P/BV (x)			EV/EBITDA (x)			Dividend Yield (%)		
						FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
ABB India	ABB IN	Reduce	2,288	1,975	6,222	118	79	64	12.0	10.2	9.0	82	57	44	0.2	0.3	0.3
Bharat Heavy Electricals	BHEL IN	Reduce	53	38	2,234	-45	67	28	0.7	0.7	0.7	-68	27	14	0.0	0.8	1.8
Cummins India	KKC IN	Add	1,008	1,060	3,576	35	29	25	5.8	5.3	4.8	30	25	21	1.7	1.7	1.7
Larsen & Toubro	LT IN	Add	1,610	1,900	28,464	26	21	17	2.7	2.5	2.3	16	14	12	2.2	1.3	1.3
Siemens India	SIEM IN	Hold	2,371	2,315	10,783	62	49	41	7.4	6.7	5.9	41	32	27	0.4	0.5	0.6
Thermax	TMX IN	Hold	2,170	2,042	3,326	78	50	39	7.0	6.4	5.6	53	34	26	0.4	0.5	0.6
Voltas	VOLT IN	Hold	976	1090	4201	64	47	38	5.9	5.6	5.1	47	37	30	0.6	0.7	0.8
KEC International	KECI IN	Add	381	470	1,233	26	21	13	2.8	2.6	2.2	14	11	8	1.1	1.0	1.6
Bharat Electronics	BHE IN	Add	235	240	7,317	25	21	19	4.7	4.2	3.8	18	15	14	1.8	2.1	2.3
Bharat Dynamics	BDL IN	Add	761	575	1,687	30	21	18	4.7	4.1	3.6	20	14	12	1.4	1.9	2.2
Hindustan Aeronautics	HNAL IN	Add	1,758	2,025	7,242	12	14	13	3.1	2.6	2.3	8	7	6	2.3	2.3	2.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**

**Profit & Loss**

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
<b>Total Net Revenues</b>	<b>214,384</b>	<b>227,546</b>	<b>246,202</b>	<b>257,055</b>	<b>272,610</b>
<b>Gross Profit</b>	<b>120,422</b>	<b>117,034</b>	<b>146,160</b>	<b>136,239</b>	<b>145,301</b>
<b>Operating EBITDA</b>	<b>48,621</b>	<b>53,469</b>	<b>54,128</b>	<b>62,340</b>	<b>67,437</b>
Depreciation And Amortisation	(9,976)	(11,776)	(11,099)	(11,658)	(12,473)
<b>Operating EBIT</b>	<b>38,645</b>	<b>41,693</b>	<b>43,030</b>	<b>50,683</b>	<b>54,964</b>
Financial Income/(Expense)	(3,484)	(2,591)	(581)	(100)	(100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,933	3,587	9,863	7,933	8,133
<b>Profit Before Tax (pre-EI)</b>	<b>38,094</b>	<b>42,689</b>	<b>52,312</b>	<b>58,516</b>	<b>62,997</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>38,094</b>	<b>42,689</b>	<b>52,312</b>	<b>58,516</b>	<b>62,997</b>
Taxation	(10,960)	(10,379)	(1,447)	(15,214)	(16,379)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>27,134</b>	<b>32,309</b>	<b>50,865</b>	<b>43,302</b>	<b>46,618</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>27,134</b>	<b>32,309</b>	<b>50,865</b>	<b>43,302</b>	<b>46,618</b>
Recurring Net Profit	27,134	32,309	50,865	43,302	46,618
<b>Fully Diluted Recurring Net Profit</b>	<b>27,134</b>	<b>32,309</b>	<b>50,865</b>	<b>43,302</b>	<b>46,618</b>

**Cash Flow**

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	48,621	53,469	54,128	62,340	67,437
Cash Flow from Invt. & Assoc.	(9,241)	(10,760)	(1,817)	(3,824)	(4,440)
Change In Working Capital	(31,819)	91,651	32,018	(18,563)	(20,139)
(Incr)/Decr in Total Provisions	366	115			
Other Non-Cash (Income)/Expense	10,294	12,414	11,099	11,658	12,473
Other Operating Cashflow	12,503	11,282			
Net Interest (Paid)/Received	(2,840)	(1,711)	9,282	7,833	8,033
Tax Paid	(18,199)	(7,186)	(1,447)	(15,214)	(16,379)
<b>Cashflow From Operations</b>	<b>15,367</b>	<b>152,696</b>	<b>84,699</b>	<b>28,563</b>	<b>30,920</b>
Capex	(8,899)	(7,619)	(7,800)	(14,000)	(14,000)
Disposals Of FAs/subsidiaries	16	12			
Acq. Of Subsidiaries/investments	(850)	(504)			
Other Investing Cashflow	(3,608)	(4,699)	9,863	7,933	8,133
<b>Cash Flow From Investing</b>	<b>(13,341)</b>	<b>(12,811)</b>	<b>2,063</b>	<b>(6,067)</b>	<b>(5,867)</b>
Debt Raised/(repaid)	17,527	(58,598)	(91)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(13,404)	(10,032)	(13,376)	(13,436)	(14,465)
Preferred Dividends					
Other Financing Cashflow	(3,484)	(2,620)	(581)	(100)	(100)
<b>Cash Flow From Financing</b>	<b>639</b>	<b>(71,249)</b>	<b>(14,048)</b>	<b>(13,536)</b>	<b>(14,565)</b>
Total Cash Generated	2,665	68,637	72,715	8,960	10,488
<b>Free Cashflow To Equity</b>	<b>19,552</b>	<b>81,288</b>	<b>86,672</b>	<b>22,496</b>	<b>25,053</b>
<b>Free Cashflow To Firm</b>	<b>5,509</b>	<b>142,477</b>	<b>87,344</b>	<b>22,596</b>	<b>25,153</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS



## BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Total Cash And Equivalents	2,979	71,663	143,436	152,396	162,883
Total Debtors	115,834	56,394	46,416	52,819	56,016
Inventories	194,539	165,603	143,636	154,937	164,313
Total Other Current Assets	110,630	119,043	144,481	150,850	159,979
<b>Total Current Assets</b>	<b>423,982</b>	<b>412,703</b>	<b>477,969</b>	<b>511,003</b>	<b>543,191</b>
Fixed Assets	93,916	95,598	92,300	94,642	96,169
Total Investments	9,402	9,891	12,941	12,941	12,941
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>103,318</b>	<b>105,490</b>	<b>105,242</b>	<b>107,584</b>	<b>109,111</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	40,892	22,462	25,598	26,726	28,343
Other Current Liabilities	301,457	342,599	364,973	369,355	369,300
<b>Total Current Liabilities</b>	<b>342,349</b>	<b>365,060</b>	<b>390,570</b>	<b>396,081</b>	<b>397,644</b>
Total Long-term Debt	57,752	91			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>57,752</b>	<b>91</b>			
Total Provisions					
<b>Total Liabilities</b>	<b>400,101</b>	<b>365,151</b>	<b>390,570</b>	<b>396,081</b>	<b>397,644</b>
Shareholders Equity	131,900	153,566	192,640	222,506	254,658
Minority Interests					
<b>Total Equity</b>	<b>131,900</b>	<b>153,566</b>	<b>192,640</b>	<b>222,506</b>	<b>254,658</b>

<b>Key Ratios</b>					
	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Revenue Growth	7.1%	6.1%	8.2%	4.4%	6.1%
Operating EBITDA Growth	6.6%	10.0%	1.2%	15.2%	8.2%
Operating EBITDA Margin	22.7%	23.5%	22.0%	24.3%	24.7%
Net Cash Per Share (Rs)	(163.80)	214.04	428.95	455.75	487.11
BVPS (Rs)	394.45	459.25	576.10	665.41	761.57
Gross Interest Cover	11.09	16.09	74.01	506.83	549.64
Effective Tax Rate	28.8%	24.3%	2.8%	26.0%	26.0%
Net Dividend Payout Ratio	41.0%	31.0%	26.3%	31.0%	31.0%
Accounts Receivables Days	204.67	138.13	76.21	70.45	72.86
Inventory Days	760.18	594.74	564.12	451.01	457.65
Accounts Payables Days	(130.56)	(104.62)	(87.67)	(79.04)	(78.94)
ROIC (%)	22.4%	58.2%	118.7%	88.7%	69.7%
ROCE (%)	22.0%	24.3%	24.9%	24.4%	23.0%
Return On Average Assets	5.9%	6.7%	9.3%	7.2%	7.4%

<b>Key Drivers</b>					
	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Manufacturing	84,692	85,640	73,750	65,540	83,400
yoy growth (%)	N/A	1	(14)	(11)	27
RoH	116,720	124,600	155,360	175,838	171,484
yoy growth (%)	20	7	25	13	(2)
Total Sales	214,384	227,546	247,467	257,055	272,610
Book to bill ratio	3	4	4	4	3
Order backlog	529,650	806,390	821,540	880,342	837,588
yoy growth (%)	(10)	52	2	7	(5)
EBITDA margin	23	23	22	24	25

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

### Recommendation Framework

#### Stock Ratings

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.