

India

ADD (no change)

Consensus ratings*: Buy 8 Hold 0 Sell 0

Current price: Rs2,289
 Target price: ▲ Rs2,515
 Previous target: Rs2,025
 Up/downside: 9.9%
 InCred Research / Consensus: -6.7%

Reuters:
 Bloomberg: HNAL IN
 Market cap: US\$10,542m
 Rs765,480m
 Average daily turnover: US\$26.1m
 Rs1896.5m
 Current shares o/s: 334.4m
 Free float: 24.9%

*Source: Bloomberg

Key changes in this note

- Raise FY23F-24F sales by 1%.
- Raise FY23F-24F EBITDA by 1-2%.
- Raise FY23F-24F PAT by 1-3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.0	27.6	65.7
Relative (%)	12.3	23.1	62.6

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

Analyst(s)



Sachin MANIAR

T (91) 22 4161 1545

E sachin.maniar@incredcapital.com

Abhishek JOSHI

T (91) 22 4161 1559

E abhishek.joshi@incredcapital.com

Hindustan Aeronautics Ltd

Solid order pipeline provides comfort

- Hindustan Aeronautics cited strong order pipeline worth Rs420bn over FY23F-24F with a further order pipeline worth Rs600bn over the next 3-5 years.
- Exports to be the growth driver but they are unlikely to have a meaningful contribution in FY23F-24F. Cost savings accelerated with indigenization steps.
- Reiterate Add rating on the stock with a higher target price of Rs2,515.

Strong order pipeline over the next few years

Hindustan Aeronautics (HAL) expects manufacturing order inflows worth Rs420bn over FY23F-24F, which includes 70 Hindustan Turbo Trainer-40 (HTT-40) aircraft worth ~Rs70bn, 25 advanced light helicopters (ALH), 12 Sukhoi-30 aircraft (SU-30) worth Rs100bn, 12 light utility helicopters (LUH), 6 Do-228, and 240 AL-31 FP engines. HAL expects another Rs600bn worth of orders which includes 140 LCH, 175 LUH, 60 naval utility helicopters (NUH), 36 HTT-40 and 60 RD-33 engine orders over the next three-to-five years.

Exports to be new growth driver in the medium term

HAL has been well placed for LCA export order from Malaysia. The company is also pushing other platforms like ALH and LCH for exports to Nepal, Bangladesh, and the Philippines. HAL is also pushing for these products to other countries like Namibia, Mauritius, Vietnam, Thailand, and Nigeria. The company has a target to generate 10% of its sales from exports by FY25F. Repair & overhaul (RoH) has been growth driver for last few years and the company expects RoH revenue of Rs130-140bn in FY23F.

Cost savings through indigenization augur well for margins

HAL indigenized 1,412 items with an anticipated forex savings of Rs1.6bn in FY22. The company has already uploaded cumulatively more than 13,000 imported items on Srijan Defence Portal. Regarding the recent third positive indigenization list comprising 780 items, management cited that almost half of them are for HAL platforms. Provision was high at ~10% of sales in FY22 because of one-off items like SU-30 aircraft replacement due to an accident, leading to a provision of Rs1.6bn and certain loan items to the tune of Rs2.7bn, excluding which it will normalize to ~7% of sales going ahead.

Reiterate Add rating on the stock with higher target price of Rs2,515

Order pipeline remains solid, but order finalization timeline is critical to maintain growth momentum in FY23F-24F. We marginally raise our EPS estimate by 3% for FY24F. We raise our target price to Rs2,515 (Rs2,025 earlier) as we roll over to Sep 2024F EPS (implying a P/E of 16x vs. 14x considering the strong order pipeline, better working capital position and margin profile) and maintain our Add rating on HAL. 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	258,337	275,432	305,905
Operating EBITDA (Rsm)	53,469	54,128	62,892	68,659	77,900
Net Profit (Rsm)	32,309	50,865	43,702	47,769	54,207
Core EPS (Rs)	96.6	152.1	130.7	142.9	162.1
Core EPS Growth	19.1%	57.4%	(14.1%)	9.3%	13.5%
FD Core P/E (x)	23.69	15.05	17.52	16.02	14.12
DPS (Rs)	30.0	40.0	34.4	37.6	42.6
Dividend Yield	1.31%	1.75%	1.50%	1.64%	1.86%
EV/EBITDA (x)	12.98	11.49	9.57	8.53	7.27
P/FCFE (x)	9.42	(28.60)	29.08	26.63	22.98
Net Gearing	(46.6%)	(74.5%)	(72.9%)	(69.2%)	(66.3%)
P/BV (x)	4.98	3.97	3.40	2.94	2.55
ROE	22.6%	29.4%	20.9%	19.7%	19.4%
% Change In Core EPS Estimates			0.92%	2.47%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Solid order pipeline provides comfort

Key takeaways from conference call ►

- **Future order prospects:** HAL expects manufacturing order inflows worth Rs420bn over FY23F-24F, which includes 70 Hindustan Turbo Trainer-40 (HTT-40) aircraft worth ~Rs70bn, 25 advanced light helicopters (ALH), 12 Sukhoi-30 (SU-30) aircraft worth Rs100bn, 12 light utility helicopters (LUH), six Do-228, 240 AL-31 FP engines, and mid-life upgrade of Do-228 for the Indian Navy worth ~Rs25bn. HAL expects another Rs600bn worth of orders, which includes 140 LCH, 175 LUH, 60 NUH, 36 HTT-40, 60 naval utility helicopters and 60 RD-33 engine orders over the next three-to-five years.
- **Provision:** Provision stood at 10% of sales in FY22 due to the following:
 - SU-30 aircraft replacement due to accident led to an additional provision of Rs1.6bn over and above the company's insurance claim.
 - Certain loan to the tune of Rs2.7bn which the company took for faster delivery to its customers due to their urgent requirement.
 - Warranty provision of Rs1.9bn because of increase in sales.
 - Replacement of helicopters led to a provision of Rs2bn.
 - HAL would be able to maintain a total provision at 6%-7% in FY23F as first two provisions were one-offs. Margin would be around 24%-25%. There would be no margin accretion due to lower provision.
- **Exports:** HAL has been well placed in the Malaysian order for LCA. The company is also pushing other platforms like ALH and LCH for exports to the Philippines, Nepal, and Bangladesh. HAL is also pushing these products to other countries like Namibia, Mauritius, Vietnam, Thailand, and Nigeria. HAL would also push exports of HTT-40 once it starts operations with the Indian Air Force or IAF. ROH activities would be conducted in the respective export countries, although parts can be imported from India.
- **Engines:** 25kN Hindustan turbo fan engine (HTFE) is being developed in-house by HAL (company-funded project). The company has conducted core engine and compressor test. It expects another six-to-seven years for certification of engine. General Electric 404 engines are being procured from USA. IAF is opening up RoH facility at its bases. HAL wants to augment this workshop by manufacturing parts and is in discussions with GE for transfer of technology for the same. This will facilitate RoH of engines in India, which normally takes two years to come back if sent to USA. HAL has entered into a joint venture with Safran to take care of future ROH requirement of ALH engines, which would help the company to focus more on manufacturing of ALH engines at its own facility. Helicopter MRO helicopter facility will come up in Goa by the end of 2023F.
- **LCH and engine orders:** Of the 15 LCH orders (worth Rs28bn), 6 had been delivered in FY22 and 9 would be delivered in FY23F. Large LCH order comprising 140 units worth Rs250bn is expected in the next two-to-three years. On engines, 240 AL-31 FP engine order is estimated by FY23F-1HFY24F, and 80 RE-33 engines contract would be concluded in FY24F.
- **ALH:** HAL expects 9 ALH to be delivered in FY23F, which will lead to completion of old contracts. Order for 25 ALH is expected by FY23F, and deliveries to start from FY24F-FY25F. ALH is a successful program and orders will continue for the same.
- **Dornier 228 aircraft:** HAL expects six Dornier-228 aircraft order from IAF, of which four will be delivered in FY23F and the remaining two would be delivered in FY24F. For mid upgrade of Dornier-228 aircraft for Indian Navy, HAL has already submitted budgetary quotation and is awaiting Request For Proposal or RFP from the customer. HAL has two civil Dornier aircraft already flying right now and is manufacturing two more civil aircraft as it is already in discussions with multiple state governments for induction of the same. Price of civil aircraft is around Rs600m.

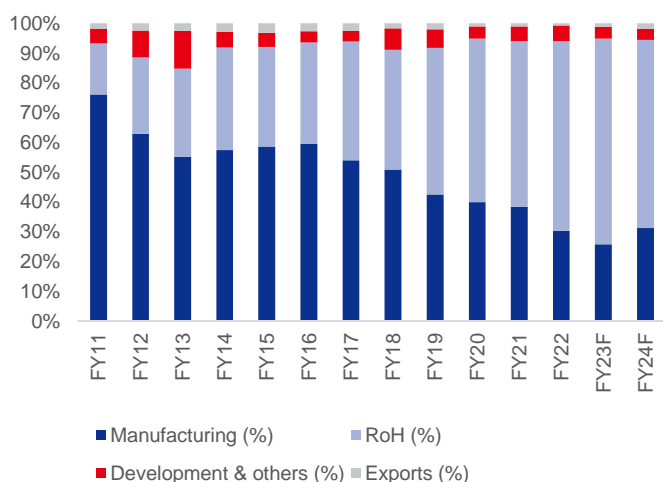
- **Platforms to undergo ROH during FY23F:** 20 Su-30s, 13 Jaguars, 9 Mirage, 21 Kiran Mk-1A and MK2, 9 Hawks, 2 Dornier, 41 ALH, 40 Cheeta-Chetak and engines for these platforms which will account for ~Rs70bn, apart from accessories and avionics. Accessories and avionics would account for another Rs60-70bn. Total Rs130-140bn of ROH orders would be executed during FY23F.
- **SU-30:** Orders may come in FY23F and deliveries to start from FY24F.
- **Supply from Russia:** HAL has made payment to Russia with some payment mechanism and the problem seems to have been sorted out. The company is getting supply of spares from Russian, notwithstanding the status of payment. HAL expects no major disruption in supply from Russia going ahead, and the company has got enough inventory currently to meet its requirement in FY23F.

Figure 1: Standalone quarterly analysis

YE Mar (Rs m)	1QFY23	1QFY22	yoy % chg	4QFY22	qoq % chg	FY22	FY21	yoy % chg	1QFY23E	Actuals vs. our estimates
Total revenue	36,225	16,162	124.1%	1,15,610	(68.7%)	2,46,202	2,27,546	8.2%	32,325	12%
Less:										
Net raw material consumed	10,186	-2,265	(549.8%)	46,387	(78.0%)	1,00,042	1,10,512	(9.5%)	9,697	5%
Other expenses	7,648	5,439	40.6%	30,259	(74.7%)	46,133	20,655	123.4%	5,786	32%
Personnel cost	10,141	10,547	(3.8%)	13,988	(27.5%)	45,898	42,910	7.0%	11,152	-9%
Total expenditure	27,976	13,721	103.9%	90,633	(69.1%)	1,92,074	1,74,077	10.3%	26,635	0%
EBIDTA	8,250	2,441	238.0%	24,978	(67.0%)	54,128	53,469	1.2%	5,689	45%
Less: Depreciation	2,081	1,113	86.9%	3,823	(45.6%)	11,099	11,776	(5.7%)	1,180	76%
EBIT	6,169	1,328	364.6%	21,154	(70.8%)	43,030	41,693	3.2%	4,509	37%
Less: Interest paid	2	147	(98.5%)	421	(99.5%)	581	2,591	(77.6%)	50	-96%
Non-operating income	1,921	1,501	28.0%	5,005	(61.6%)	9,863	3,587	175.0%	2,000	-4%
Extraordinary expenses										
Profit before tax	8,088	2,682	201.6%	25,739	(68.6%)	52,312	42,709	22.5%	6,459	25%
Profit before tax excl. extraordinary	8,088	2,682	201.6%	25,739	(68.6%)	52,312	42,689	22.5%	6,459	25%
Less: Total tax	2,021	694	191.2%	-5,281	(138.3%)	1,447	10,379	(86.1%)	1,679	20%
Reported PAT	6,067	1,988	205.2%	31,020	(80.4%)	50,865	32,330	57.3%	4,780	27%
Profit after tax excl. extraordinary	6,067	1,988	205.2%	31,020	(80.4%)	50,865	32,309	57.4%	4,780	27%
Diluted shares outstanding (m)	334	334		334		334	334		334	
Reported EPS-diluted (Rs.)	18.1	5.9	205.2%	92.8	(80.4%)	152.1	96.7	57.3%	14.3	27%
Adjusted EPS-diluted (Rs.)	18.1	5.9	205.2%	92.8	(80.4%)	152.1	96.6	57.4%	14.3	27%
Margin Analysis										
			yoy bp chg		qoq bp chg			yoy bp chg		
Raw material % of total revenue	28.1%	-14.0%	4,213	40.1%	-1,201	40.6%	48.6%	-793	30.0%	
Other expenses % of total revenue	21.1%	33.7%	-1,254	26.2%	-506	18.7%	9.1%	966	17.9%	
Personnel cost % of total revenue	28.0%	65.3%	-3,726	12.1%	1,590	18.6%	18.9%	-22	34.5%	
EBIDTA margin	22.8%	15.1%	767	21.6%	117	22.0%	23.5%	-151	17.6%	
EBIT margin	17.0%	8.2%	881	18.3%	-127	17.5%	18.3%	-85	13.9%	
PBT margin (%)	22.3%	16.6%	573	22.3%	6	21.2%	18.8%	248	20.0%	
Proforma NPM	16.7%	12.3%	445	26.8%	-1,008	20.7%	14.2%	646	14.8%	
Effective tax rate (%)	25.0%	25.9%	-89	-20.5%	4551	2.8%	24.3%	-2154	26.0%	

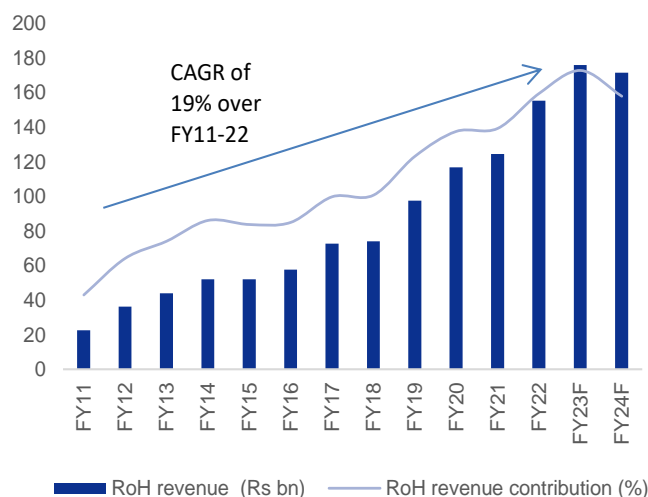
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Share of manufacturing sales declined over the last few years, while services sales share inched up



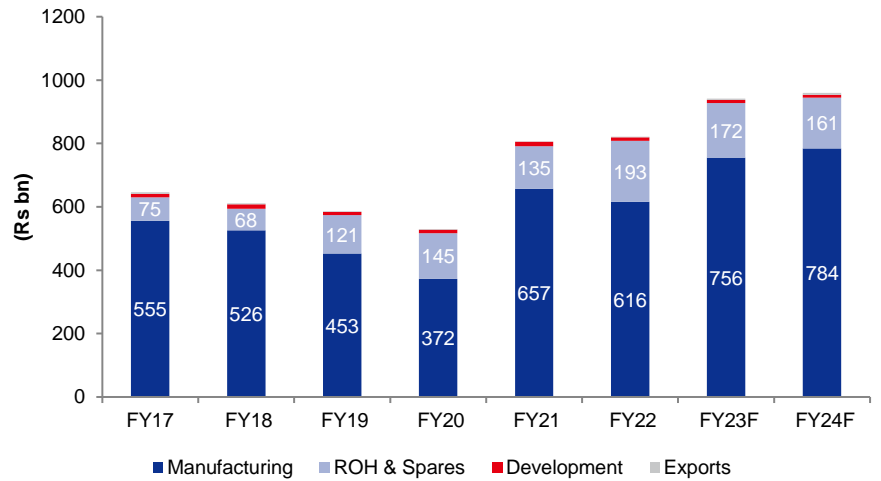
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Large order finalization over FY21-24F to boost order backlog



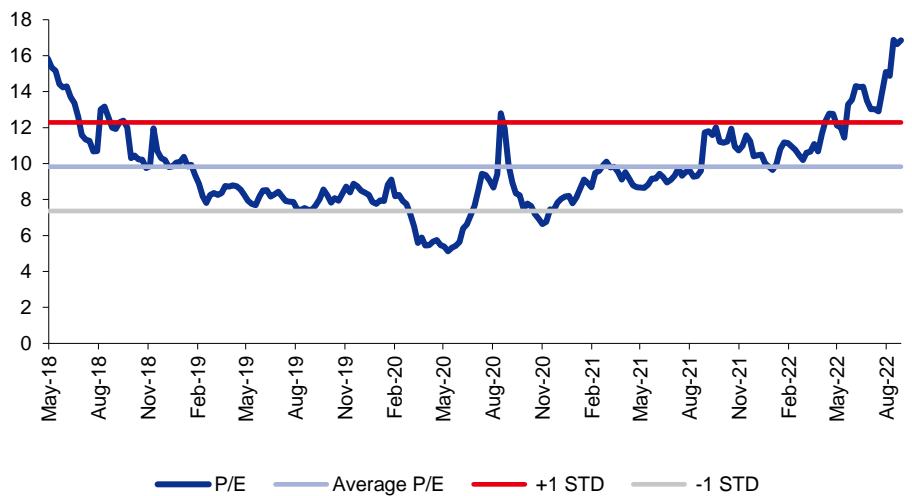
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision summary

(Rs m)	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	2,57,055	2,72,610	2,58,337	2,75,432	0.5%	1.0%
EBITDA	62,340	67,437	62,892	68,659	0.9%	1.8%
Core PAT	43,302	46,618	43,702	47,769	0.9%	2.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



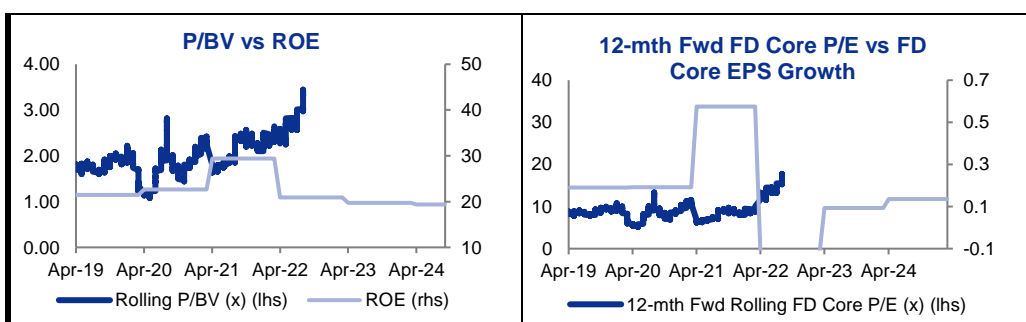
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Sector comparison

Company	Bloomberg Ticker	Recom.	Price	TP	Mkt cap (US\$ m)	P/E (x)			P/BV (x)			EV/EBITDA (x)			Dividend Yield (%)		
			Rs	Rs		FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
ABB India	ABB IN	Reduce	3,196	2,435	7,238	95	75	63	16.7	13.9	12.0	70	54	45	0.2	0.2	0.2
Bharat Heavy Electricals	BHEL IN	Reduce	59	38	2,266	-132	33	18	0.8	0.8	0.7	137	17	10	(0.4)	1.5	2.8
Cummins India	KKC IN	Add	1,207	1,350	4,134	37	31	28	6.4	5.8	5.2	31	25	22	1.5	1.6	1.6
Larsen & Toubro	LT IN	Add	1,881	1,900	32,273	25	20	18	3.2	2.9	2.6	16	14	12	1.1	1.1	1.2
Siemens India	SIEM IN	Hold	2,848	2,500	12,555	76	58	49	8.7	7.8	7.0	51	39	33	0.4	0.4	0.5
Thermax	TMX IN	Hold	2,468	2,165	3,093	61	45	37	7.2	6.4	5.6	42	31	25	0.4	0.5	0.5
Voltas	VOLT IN	Hold	992	1,020	4,080	58	47	37	5.6	5.2	4.8	44	36	29	0.7	0.8	0.8
KEC International	KECI IN	Add	403	500	1,306	26	14	9	2.6	2.2	1.9	13	8	6	0.8	1.5	2.1
SKF	SKF IN	Add	4,637	4,515	2,685	42	35	31	12.2	9.8	7.9	30	25	22	0.4	0.4	0.4
Schaeffler	SCHFL IN	Add	2,999	2,900	5,580	55	47	40	12.8	11.0	9.4	36	31	27	0.5	0.6	0.7
Timken	TMKN IN	Hold	2,967	2,320	2,827	54	46	41	10.9	8.9	7.3	35	31	28	0.1	0.1	0.1
Bharat Electronics	BHE IN	Add	309	300	8,620	25	23	20	5.5	4.9	4.3	19	18	15	1.7	1.9	2.2
Bharat Dynamics	BDL IN	Add	811	575	1,987	20	18	16	4.3	3.8	3.3	13	11	10	2.0	2.2	2.4
Hindustan Aeronautics	HNAL IN	Add	2,290	2,515	9,063	18	16	14	3.4	2.9	2.6	9	8	7	1.5	1.6	1.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	227,546	246,202	258,337	275,432	305,905
Gross Profit	117,034	146,160	136,919	146,806	162,130
Operating EBITDA	53,469	54,128	62,892	68,659	77,900
Depreciation And Amortisation	(11,776)	(11,099)	(11,907)	(12,580)	(13,420)
Operating EBIT	41,693	43,030	50,984	56,080	64,481
Financial Income/(Expense)	(2,591)	(581)	(100)	(100)	(100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,587	9,863	8,172	8,572	8,872
Profit Before Tax (pre-EI)	42,689	52,312	59,057	64,552	73,253
Exceptional Items					
Pre-tax Profit	42,689	52,312	59,057	64,552	73,253
Taxation	(10,379)	(1,447)	(15,355)	(16,784)	(19,046)
Exceptional Income - post-tax					
Profit After Tax	32,309	50,865	43,702	47,769	54,207
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	32,309	50,865	43,702	47,769	54,207
Recurring Net Profit	32,309	50,865	43,702	47,769	54,207
Fully Diluted Recurring Net Profit	32,309	50,865	43,702	47,769	54,207

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	53,469	54,128	62,892	68,659	77,900
Cash Flow from Invt. & Assoc.	(10,760)	(1,817)	(3,835)	(4,107)	(4,647)
Change In Working Capital	91,651	12,589	(17,390)	(19,706)	(22,422)
(Incr)/Decr in Total Provisions	115	56			
Other Non-Cash (Income)/Expense	12,414	12,863	11,907	12,580	13,420
Other Operating Cashflow	11,282	37,332			
Net Interest (Paid)/Received	(1,711)	3,662	8,072	8,472	8,772
Tax Paid	(7,186)	(10,532)	(15,355)	(16,784)	(19,046)
Cashflow From Operations	152,696	100,958	30,147	32,169	36,433
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)	8,172	8,572	8,872
Cash Flow From Investing	(12,811)	(127,634)	(3,828)	(3,428)	(3,128)
Debt Raised/(repaid)	(58,598)	(91)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,032)	(13,376)	(11,492)	(12,561)	(14,254)
Preferred Dividends					
Other Financing Cashflow	(2,620)	(24)	(100)	(100)	(100)
Cash Flow From Financing	(71,249)	(13,491)	(11,592)	(12,661)	(14,354)
Total Cash Generated	68,637	(40,167)	14,728	16,080	18,951
Free Cashflow To Equity	81,288	(26,767)	26,320	28,742	33,305
Free Cashflow To Firm	142,477	(26,095)	26,420	28,842	33,405

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	71,663	143,436	163,820	179,900	198,851
Total Debtors	56,394	46,416	53,083	56,596	62,857
Inventories	165,603	143,636	155,710	166,014	184,381
Total Other Current Assets	119,043	138,826	145,668	155,308	172,490
Total Current Assets	412,703	472,313	518,280	557,817	618,579
Fixed Assets	95,598	92,300	92,393	91,813	90,393
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	105,334	104,755	103,335
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	22,462	25,598	26,859	28,637	31,805
Other Current Liabilities	342,599	364,972	371,905	373,878	390,099
Total Current Liabilities	365,060	390,570	398,764	402,514	421,904
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	398,764	402,514	421,904
Shareholders Equity	153,566	192,640	224,850	260,058	300,011
Minority Interests					
Total Equity	153,566	192,640	224,850	260,058	300,011

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	6.1%	8.2%	4.9%	6.6%	11.1%
Operating EBITDA Growth	10.0%	1.2%	16.2%	9.2%	13.5%
Operating EBITDA Margin	23.5%	22.0%	24.3%	24.9%	25.5%
Net Cash Per Share (Rs)	214.04	428.95	489.91	538.00	594.67
BVPS (Rs)	459.25	576.10	672.42	777.71	897.19
Gross Interest Cover	16.09	74.01	509.84	560.80	644.81
Effective Tax Rate	24.3%	2.8%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	31.0%	26.3%	26.3%	26.3%	26.3%
Accounts Receivables Days	138.13	76.21	70.29	72.67	71.26
Inventory Days	594.74	564.12	449.94	456.47	444.77
Accounts Payables Days	(104.62)	(87.67)	(78.85)	(78.74)	(76.72)
ROIC (%)	58.2%	140.6%	106.0%	83.4%	73.1%
ROCE (%)	24.3%	24.9%	24.4%	23.1%	23.0%
Return On Average Assets	6.7%	9.4%	7.3%	7.4%	7.8%

Key Drivers

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Manufacturing	85,640	73,750	65,540	84,940	127,450
yoy growth (%)	1	(14)	(11)	30	50
RoH	124,595	155,359	175,838	171,484	158,079
yoy growth (%)	7	25	13	(2)	(8)
Total Sales	227,546	247,465	258,337	275,432	305,905
Book to bill ratio	4	4	4	4	3
Order backlog	806,390	821,540	941,660	959,584	982,335
yoy growth (%)	52	2	15	2	2
EBITDA margin	23	22	24	25	25

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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