

India

Overweight (no change)**Highlighted Companies****Bharat Electronics****ADD, TP Rs170, Rs147 close**

Electronics account for around 40% of modern warfare leading platforms, where BEL is a dominant player in India. Its strong order backlog and the traction in exports, we feel, will drive near-term sales while large orders in the pipeline to aid medium-term growth.

Hindustan Aeronautics**ADD, TP Rs2500, Rs2462 close**

The Indian Air Force increasing and modernizing its squadron numbers provides good opportunities for HAL. It's order pipeline remains solid, but the order finalization timeline is critical to maintain the growth momentum in FY24F-25F.

Data Patterns (India)**ADD, TP Rs3000, Rs2053 close**

A high-growth company with consistent margins & improving return ratios. Robust order backlog with a strong order pipeline and the focus on in-house product development and exports, we feel, will help Data Patterns to maintain the strong momentum in the medium term.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Bharat Electronics	31.6	25.8	21.26
Hindustan Aeronautics	32.43	27.17	23.02
Data Patterns (India)	58.46	40.03	30.31

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Bharat Electronics	6.92	5.98	5.13
Hindustan Aeronautics	6.07	5.24	4.51
Data Patterns (India)	8.62	7.29	6.06

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Bharat Electronics	1.31%	1.6%	1.94%
Hindustan Aeronautics	0.89%	1.06%	1.25%
Data Patterns (India)	0.26%	0.38%	0.51%

Aerospace & Defence

2Q results review: Outlook remains positive

- BEL, BDL & Data Patterns posted strong 2Q EBITDA growth & margin expansion due to a better product mix. Higher inventory hit HAL's EBITDA.
- New order win momentum sustains. Hence, the order book-to-sales ratio is at a comfortable level for all companies, giving near-term revenue visibility.
- Our outlook on the sector remains positive, and we maintain our Overweight rating on it. Our preferred stocks in the sector are HAL, BEL, & Data Patterns.

Defence production is on track to meet targets

India's defence ministry has set a target to achieve defence production of Rs1.35tr for FY24F, implying a robust growth of over 24%. Defence public sector undertakings (DPSUs) and private defence manufacturing companies are currently on track, as they have already achieved defence equipment production worth Rs461bn (~34% of target) as of end-Nov 2023. As major deliveries for large-size orders are usually scheduled in 2H, we expect the execution to pick up in 2HFY24F. Similarly, the defence ministry has set a target to achieve defence equipment exports worth Rs200bn in FY24F, of which India has already exported worth Rs78bn as of end-Nov 2023.

2QFY24 results highlights

Despite a seasonally slow quarter for new orders, defence electronic component companies in India witnessed healthy order wins in 2QFY24. These companies expect robust new order wins in 2HFY24F, driven by equipment upgrade for the Indian Navy and development of anti-drone systems. Additionally, these companies have started collaborating and investing in R&D via tie-ups with startups and organizations involved in space-related technology.

Hindustan Aeronautics: Higher inventory level led to a marginal miss on EBITDA front.

Bharat Electronics: Consistent efforts; consistent results.

Bharat Dynamics: Execution pick-up hints at supply chain problems easing.

Data Patterns: Steady 2Q; strong execution likely in 2H.

ideaForge Technologies: Lumpy quarter; new order wins could drive growth in FY25F.

Solar Industries: Falling ammonium nitrate prices help to improve margins and demand.

MIDHANI (Mishra Dhatu Nigam): Rising nickel and titanium prices impact margins.

Astra Microwave Products: Strategic partnerships and launch of new products to drive the next phase of growth.

PTC Industries: The focus lies on strategic partnerships & future capabilities.

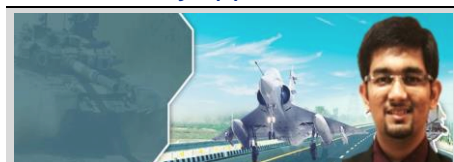
Zen Technology: Strong growth momentum likely to continue.

DCX Systems: Product expansion & diversification key to improve margins.

Premier Explosives: New order wins in 1HFY24 provides strong revenue visibility.

Maintain Overweight rating on aerospace and defence sector

We remain Overweight on the aerospace and defence sector as the valuations of companies in the sector currently factor in robust growth led by a strong order pipeline on the back of various schemes like Atmanirbhar Bharat, Positive Indigenization List and Defence Modernization Plan. We have an ADD rating on BEL, HAL, Data Patterns and BDL. Downside risks: Delay in order finalization and slower-than-expected execution.

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Figure 1: Companies under our coverage

Company Name	Mcap (Rs bn)	Rating	Target Price (Rs)	Upside (%)
Hindustan Aeronautics	1,650	ADD	2,500	5.0
Bharat Electronics	1,088	ADD	170	16.4
Bharat Dynamics	220	ADD	1,300	11.8
Data Patterns	115	ADD	3,000	49.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 2QFY24 results summary

Company Name	Bloomberg Ticker	Rating	Target price (Rs)	Mcap (Rs bn)	Revenue		Revenue growth			EBITDA			EBITDA Growth			EBITDA Margin (%)			Orderflow (Rs bn)	Orderbook (Rs bn)	OB/Sales (x)	P/E (x)		
					(Rs m)	yoy %	qoq %	(Rs m)	yoy %	qoq %	2QFY24	2QFY23	1QFY23	2QFY24	2QFY23	1QFY23	FY23	FY24F				FY25F		
Hindustan Aeronautics	HNAL IN	ADD	2,500	1,650	56,358	9.5	43.9	15,288	(5.0)	73.8	27.1	31.3	22.5	4.6 *	818	3.0	37.3	31.3	26.3					
Bharat Electronics	BHE IN	ADD	170	1,088	39,933	1.2	13.7	10,044	17.4	51.2	25.2	21.7	18.9	72.9	687	3.9	35.5	31.3	25.5					
Bharat Dynamics	BDL IN	ADD	1,300	220	6,158	15.2	106.8	1,340	42.8	(510.4)	21.8	17.5	(11.0)	16.2 *	208	9.6	60.5	37.3	27.3					
Data Patterns	DATAPATT IN	ADD	3,000	115	1,083	22.9	20.8	408	35.1	46.5	37.6	34.2	31.0	1.4	10	2.0	90.8	57.3	39.2					
ideaForge Technologies	IDEAFORG IN	NR	NA	329	237	(41.1)	(75.6)	-79	(212.2)	(127.6)	(33.1)	17.4	29.4	1.7	3	1.4	91.5	NA	NA					
Solar Industries	SOIL IN	NR	NA	555	13,475	(14.0)	(19.9)	3,439	13.4	3.8	25.5	19.4	19.7	25.8 *	39	0.6	75.2	58.4	48.4					
MIDHANI	MIDHANI IN	NR	NA	70	2,275	25.7	21.2	363	(38.1)	(12.6)	16.0	32.4	22.1	1.5	15	1.5	44.9	42.1	33.2					
Astra Microwave Products	ASTM IN	NR	NA	55	1,890	10.6	42.2	416	2.7	798.7	22.0	23.7	3.5	4.1	19	2.3	71.5	49.8	35.4					
PTC Industries	PTCIL IN	NR	NA	76	575	6.4	(19.6)	157	(8.4)	(20.7)	27.2	31.6	27.6	NA	NA	NA	359.3	NA	NA					
Zen Technology	ZEN IN	NR	NA	66	640	203.1	(51.7)	218	304.5	(67.1)	34.0	25.5	50.0	9.2	14	4.6	139.1	NA	NA					
DCX Systems	DCXINDIA IN	NR	NA	35	3,091	77.8	81.7	190	92.3	141.6	6.2	5.7	4.6	0.3	13	0.9	42.7	NA	NA					
Premier Explosives	PRE IN	NR	NA	15	784	29.3	26.6	219	203.8	31.4	27.9	11.9	26.9	7.0 *	11	4.6	229.0	NA	NA					

NOTE: HAL: ORDER FLOW AS PER BSE FILING RELEASE, ORDER BOOK AS OF FY23-END.
BDL: 1HFY24 ORDER FLOW.

SOLAR INDUSTRIES: ORDER FLOW BOOSTED DUE TO COAL INDIA'S ORDER WORTH RS 18BN.

PREMIER EXPLOSIVES: ORDER FLOW FOR 1HFY24.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY24 results review: Outlook remains positive

Hindustan Aeronautics

Higher inventory level leads to a marginal miss in EBITDA ► (ADD | TP: Rs2,500)

While HAL's revenue increased by 9.5% yoy to Rs56.3bn, EBITDA declined by 5% yoy to Rs15.3bn. The EBITDA declined due to the impact of higher inventory level. Similarly, the EBITDA margin was at 27%, below the level of 31% in 2QFY23. The higher-than-estimated interest income offset the EBITDA decline and hence, the company reported a PAT of Rs12.4bn, flat yoy, but in line with our estimate.

During 2QFY24, HAL signed a contract for the supply of two Do-228 aircraft to the Indian Coast Guard (ICG) worth Rs4.6bn. Factoring in this order, HAL's order book is estimated at ~Rs727bn (~2.6x TTM sales).

Guidance: HAL had earlier given revenue growth guidance of 10%/12% for FY24F/25F, respectively, with a steady EBITDA margin of 20-22%.

Figure 3: HAL's standalone quarterly financials

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq % chg
Total Revenue	56,358	51,449	9.5%	39,153	43.9%
Less:					
Net Raw materials consumed	23,544	18,435	27.7%	10,259	129.5%
Other expenses	5,602	5,502	1.8%	6,104	(8.2%)
Personnel costs	11,924	11,412	4.5%	13,995	(14.8%)
Total expenditure	41,070	35,349	16.2%	30,358	35.3%
EBITDA	15,288	16,100	(5.0%)	8,796	73.8%
Less: Depreciation	3,495	2,518	38.8%	2,012	73.6%
EBIT	11,794	13,582	(13.2%)	6,784	73.9%
Less: Interest paid	3	4	(14.3%)	0	2900.0%
Non-operating income	4,710	2,608	80.6%	4,108	14.7%
Profit before tax	16,501	16,186	1.9%	10,891	51.5%
Less: Total Tax	4,148	4,094	1.3%	2,749	50.9%
Reported PAT	12,353	12,092	2.2%	8,142	51.7%
Diluted shares outstanding (m)	669	669		669	
Reported EPS-diluted (Rs.)	18.5	18.1	2.2%	12.2	51.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: HAL's order pipeline

Order pipeline in short term		
Product	Qty	Amount (Rs bn)
Advanced Light Helicopter (ALH)	25	35
RD-33 Engine	80	45
Light Utility Helicopter (LUH)	12	25
Sukhoi-30 MKI	12	120
AL-31 engines	240	260
Order pipeline in the medium term (2-5 years)		
Light Combat Helicopter (LCH)	145	450
Light Utility Helicopter (LUH)	175	350
Utility Helicopters Marine (UHM)	60	200
HTT-40	36	35
Dornier 228 (Do-228) upgrades	60	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Bharat Electronics

Consistent efforts; consistent results ► (ADD | TP: Rs170)

Bharat Electronics or BEL reported muted sales growth at Rs40bn in 2QFY24. Some disturbances in Karnataka impacted BEL's dispatches during the quarter. The impact is estimated to be ~Rs4bn, which is likely to be mitigated in 3QFY24F. The EBITDA stood at Rs10bn (up 17.4% yoy). BEL showcased strong EBITDA growth due to a better product mix leading to significant improvement in margins to 25.2% (up 346bp yoy).

The revenue mix comprised 71% from the defence segment and 29% from the non-defence segment. The company stated that it has executed almost all orders for Electronic Voting Machines (EVMs) and Voter Verifiable Paper Audit Trail (VVPAT). We believe the overall margins will normalize in 2HFY24F.

The order book stood at Rs687bn, (~3.9x TTM sales). BEL witnessed order bookings worth ~Rs154bn in 1HFY24. The company expects robust order booking of more than Rs200bn in FY24F. BEL aims to maintain a 3x order book-to-sales ratio, thereby ensuring a steady stream of revenue in the coming years.

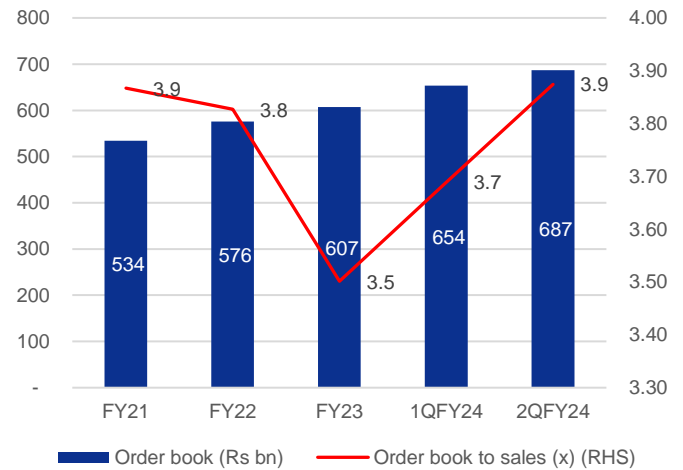
Guidance: BEL maintains its guidance and projects a topline growth of ~17% and the EBITDA margin in the range of 21%-23% for FY24F. As per BEL, export revenue is likely to touch US\$90-100m in FY24F.

Figure 5: BEL's standalone quarterly financials

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy Chg. (%)	1QFY24	qoq Chg. (%)
Total Revenue	39,933	39,458	1.2%	35,108	13.7%
Less:					
Net raw materials consumed	20,452	22,383	(8.6%)	19,844	3.1%
Other expenses	3,504	2,563	36.7%	2,383	47.0%
Personnel costs	5,934	5,955	(0.3%)	6,237	(4.9%)
Total expenditure	29,890	30,901	(3.3%)	28,464	5.0%
EBITDA	10,044	8,558	17.4%	6,644	51.2%
Less: Depreciation	1,004	1,042	(3.6%)	1,013	(0.8%)
EBIT	9,039	7,516	20.3%	5,632	60.5%
Less: Interest paid	15	17	(13.2%)	11	(101.2%)
Non-operating income	1,705	750	127.3%	1,417	20.4%
Profit before tax	10,729	8,249	30.1%	7,038	52.5%
Less: Total tax	2,606	2,138	21.9%	1,729	50.7%
Profit after tax	8,123	6,111	32.9%	5,308	53.0%
Reported EPS (Rs.)	1.11	0.84	32.9%	0.73	53.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Order book-to-sales ratio of 3.9x in 2QFY24 provides revenue visibility



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Bharat Dynamics

Execution pick-up hints at supply chain problems easing ➤

(ADD | TP: Rs1,300)

2QFY24 revenue (Rs6.2bn) of Bharat Dynamics or BDL increased by 15% yoy. The EBITDA margin increased to 21.8% from 17.5% yoy and EBITDA (Rs1.3bn) rose by a sharp 43%. Higher interest income further boosted PAT to Rs1.5bn (up 94% yoy). **Guidance:** Revenue of Rs32bn (implying a growth of ~30% yoy) with an EBITDA margin of 20-23% in FY24F.

BDL won an order worth ~Rs16.6bn in 1HFY24, taking its order book to ~Rs208bn (~9.6x TTM sales). The strong OB/TTM sales ratio is largely because of slow execution since 3QFY23.

While the pick-up in order execution in 2QFY24 was encouraging, BDL needs to further improve the execution to meet its financial targets for FY24F. Further clarity on the status of supply chain disruption for critical raw materials is awaited, with BDL anticipating a resolution of the same by 4QFY24F.

Figure 7: BDL's standalone quarterly financials

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq %
Total revenue	6,158	5,348	15.2%	2,977	106.8
Less:					
Net raw materials consumed	2,715	2,384	13.9%	1,243	118.4
Other expenses	811	577	40.6%	707	14.7
Personnel costs	1,292	1,448	(10.8%)	1,353	(4.5)
Total expenditure	4,818	4,409	9.3%	3,304	45.8
EBITDA	1,340	938	42.8%	-327	(510.4)
Less: Depreciation	174	213	(18.2%)	169	3.2%
EBIT	1,166	725	60.8%	-495	(335.3)
Less: Interest paid	8	8	(3.6%)	8	0.5%
Non-operating income	783	450	74.0%	1,074	(27.1)
Profit before tax	1,941	1,167	66.3%	571	239.7
Less: Total tax	470	409	14.9%	153	206.9
Reported PAT	1,471	758	94.0%	418	
Reported EPS-diluted (Rs.)	8.0	4.1	94.0%	2.3	251.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Reasons for the shortfall in execution (FY23) – BDL believes most of the problems will be resolved by 4QFY24F

Product group	Achievement vs Target (%)	Reason for shortfall
ATGMs	64%	- Delay in receiving imported long lead electronics items and critical raw materials.
SAMs	90%	- Delay in receipt of production clearance from the designer. - Delay in the receipt of free issue material for MRSAM from OEM.
Under-water weapons	56%	- The shortfall was due to design changes in one of the systems of naval products followed by quality tests.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Key products in the pipeline

Type	Product	Status
Surface-to-Air Missile (SAM)	Quick Reaction Surface-to-Air Missile (QR-SAM)	User trials completed & waiting for RFP.
	Vertically Launched Short-Range Surface-to-Air Missile (VL-SR-SAM)	Currently, development trials under progress.
	UAV launched Precision Guided Munition Air-to-Surface Missile (UL PGM)	Developmental trials completed; Preparing for the next phase of trials and expected to be in production by 2024F.
Air-to-Surface Missile	Smart Anti - Airfield Weapon (SAAW)	Development order is received by BDL; Final user trials were scheduled in April 2023, but the status not known.
	Helicopter launched NAG (HELINA)	User trials completed in 2022; waiting for RFP from Army Aviation & IAF.
Anti-Tank Guided Missile (ATGM)	Man Portable Anti-Tank Guided Missile (MP-ATGM)	Flight trials completed; Development/user trials are under progress, order finalization expected by FY24F.
	Amogha-III ATGM	Under final stage of development trials, Field trials were expected to commence in April 2023, but the status not known.
	NAG	Military evaluation trials completed; waiting for RFP, order finalization expected by FY24F.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Data Patterns

Steady results; strong execution likely in 2HFY24F ➤ (ADD / TP: Rs3,000)

Data Patterns reported a strong revenue growth of 23% yoy to Rs1.1bn in 2QFY24, primarily driven by development contracts of the Defence Research and Development Organisation or DRDO. The EBITDA grew by 35% yoy to Rs408m and it reported a higher-than-expected EBITDA margin of 38% vs. 34% yoy due to a better product mix. **Guidance:** Retains its FY24F guidance, including revenue growth of around 30%, gross margin in the range of 60-65%, EBITDA margin at ~40% and order inflow to the tune of Rs6-7bn.

The order book or OB grew significantly in 2QFY24, with new orders worth Rs1.4bn (includes export orders worth Rs390m), taking the total OB to Rs10bn (2x TTM sales). The company expects the OB to be executed by FY25F. It expects further new orders worth Rs788m - where negotiations are complete, but the orders are yet to be received while the orders for Dharashakti and Arudhra radars are likely in the next two-to-three months.

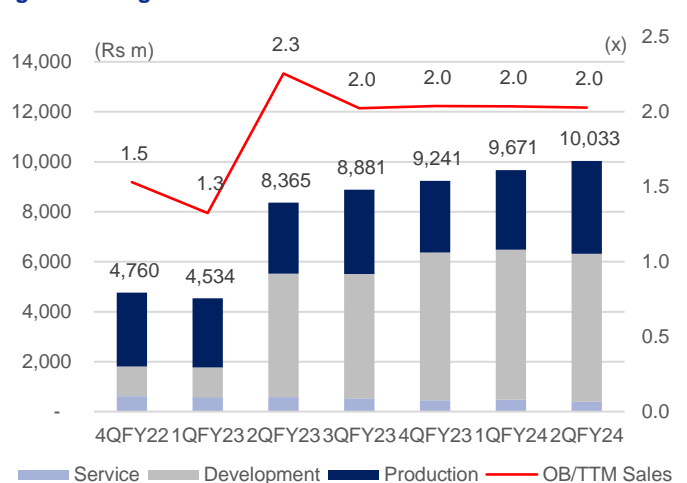
Initiation report: *Data Patterns (India) Ltd - A force to reckon with (ADD - Initiate)*

Figure 10: Data Patterns' standalone quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg.	1QFY24	% Chg.
Net sales	1,083	882	23	897	21
EBITDA	408	302	35	278	46
Other income	108	19	486	116	-7
PBITDA	516	320	61	394	31
Depreciation	31	21	44	28	8
Interest	23	12	85	17	31
Extraordinary income	-	-	-	-	-
PBT	463	287	61	349	33
Tax	125	76	64	91	38
Reported PAT	338	211	61	258	31
Adjusted PAT	338	211	61	258	31
EBITDA margin (%)	37.6	34.2		31.0	
Earnings per share (Rs)	6	4	61	5	31
Tax rate (%)	27.0	26.6		25.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Segmental order book



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Major orders won in 1QFY24

Product	Customer	Order Type	Value (Rs m)
Electronic warfare	DRDO	Development	362
Radar	Private customer	Production	357
Radar	Export	Production	327
Electronic warfare	DRDO	Development	137
Under-water	DRDO	Production	8
Service	DoS	Service	7
			1,198

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Major orders won in 2QFY24

Product	Customer	Order Type	Value (Rs m)
Avionics	HAL	Production	447
Radar	Export market	Development	389
Radar	BEL	Production	321
Avionics	ADA	Production	64
			1,221

SOURCE: INCRED RESEARCH, COMPANY REPORTS

ideaForge Technology

Lumpy 2Q; new order wins to drive growth in FY25F ➤

(Not Rated | M-cap: Rs34bn | CMP: Rs804)

Reduced deliveries in 2QFY24 led to an EBITDA loss of Rs79m for ideaForge Technology. While the revenue contribution continued to be dominated by its defence equipment business (69%), the contribution from civil business witnessed a sharp rise to 31% in 2QFY24 (vs. 4% in 1QFY24). The company's revenue recognition follows a contract schedule, and it is building inventories for sizable deliveries, leading to lumpiness in revenue recognition.

In 2QFY24, ideaForge Technology won new orders worth Rs1.7bn, taking its total order book to Rs2.5bn (1.4x FY23 sales). The execution period for the entire order book is in the range of 12-18 months, thereby providing revenue visibility for 2HFY24F and FY25F.

Upcoming segments: (1) Drone-as-a-service opportunities are advancing towards securing early commercial contracts. (2) North America: Successful demonstrations of its products, and approval and shipping processes are underway. Expects North America market to scale up significantly in FY25F-26F. (3) Spent Rs220m on R&D focusing on development of tactical drone and middle-mile logistics platform.

Figure 14: ideaForge's standalone quarterly financials

(Rs m)	2Q FY24	2Q FY23	YoY (%)	1Q FY24	QoQ (%)
Net sales	237	403	(41.1)	971	(75.6)
Raw material costs	137	127	8.4	432	(68.2)
Employee costs	84	127	(34.3)	154	(45.8)
Other operating expenses	95	79	20.5	100	(5.0)
Total expenditure	316	333	(5.0)	686	(53.9)
EBITDA	(79)	70		285	
Interest	7	7	(6.1)	23	(70.0)
Depreciation	50	27	87.9	47	7.8
Other income	149	28	428.8	35	321.2
Extraordinary income	-	-	-	-	-
PBT	13	64	(79.2)	251	(94.7)
Tax	4	24	(81.8)	62	(92.9)
Tax rate (%)	33.1	37.9			
Reported PAT	9	40	(77.6)	189	(95.3)
EPS (Rs)	0.2	1.0	(77.6)	4.5	(95.3)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Major orders won in 2QFY24

Date	Details	Client	Amount (Rs m)	Execution period (months)
09-Aug-23	Surveillance quadcopters with accessories	Ministry of Defence	881	12
21-Sep-23	Supply of 400 surveillance copters with accessories	Ministry of Defence	580	12

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Solar Industries

Falling ammonium nitrate prices help to improve margins and demand ➤

(Not Rated | M-cap: Rs670bn | CMP: Rs7,390)

While Solar Industries' explosives volume grew 13% yoy, revenue (Rs13.5bn) declined by 14% yoy due to a steep decline in raw material prices and hence, consolidated EBITDA (Rs3.3bn) witnessed a growth of 12% yoy. The EBITDA margin increased to 25% from 19% in 2QFY23. **Guidance:** ~20%/ 15% volume growth for domestic/ international market, respectively. Solar Industries has upgraded its FY24F EBITDA margin guidance to more than 22%. The defence products business is expected to contribute ~Rs7bn to its revenue in FY24F.

The company won an order worth Rs18bn from Coal India, taking its total order book to Rs39bn (0.8x TTM sales), thereby providing near-term revenue visibility. Going ahead, the company expects broad-based growth driven by increased volume from mining, housing, infrastructure, and defence sectors in the coming quarters.

Ammonium nitrate prices saw a steep decline (down ~50% yoy). Solar Industries mentioned that ammonium nitrate prices were in a similar range in Oct/Nov 2023, and it is optimistic that they will continue to be in the same range in the rest of FY24F.

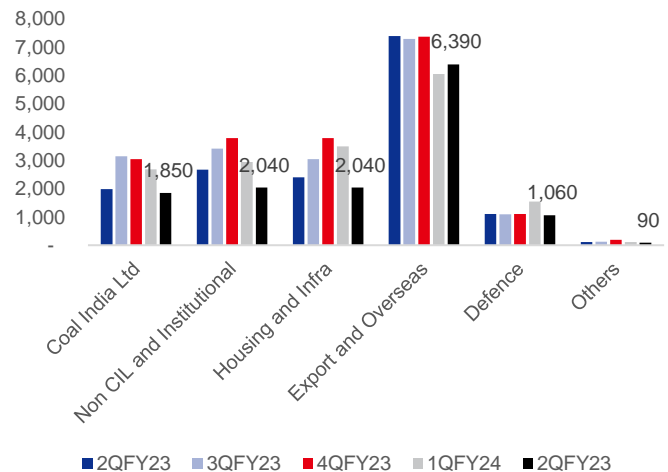
[\(Link to our recent update on ammonium nitrate prices by Satish Kumar\)](#)

Figure 16: Solar Industries' consolidated quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg	1QFY24	% Chg
Net sales	13,475	15,666	-14	16,822	-20
EBITDA	3,362	2,990	12	3,231	4
Other income	77	44		82	
PBITDA	3,439	3,033	13	3,313	4
Depreciation	337	304	11	341	-1
Interest	249	194	28	247	1
Extraordinary income	-7.8	-0.7		-1.0	
PBT	2,845	2,535	12	2,724	4
Tax	755	649	16	709	7
Reported PAT	2,090	1,886	11	2,016	4
Adjusted PAT	2,096	1,887	11	2,017	-99
EBITDA margin (%)	24.9	19.1		19.2	
Adjusted EPS	23	21		22	

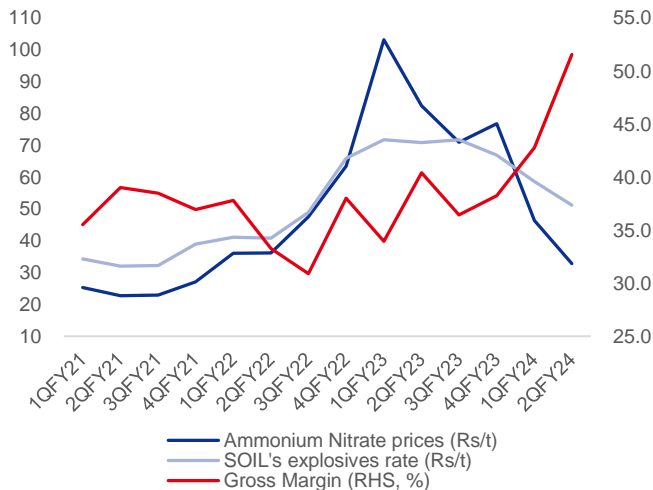
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Solar Industries' segmental revenue in 2QFY24



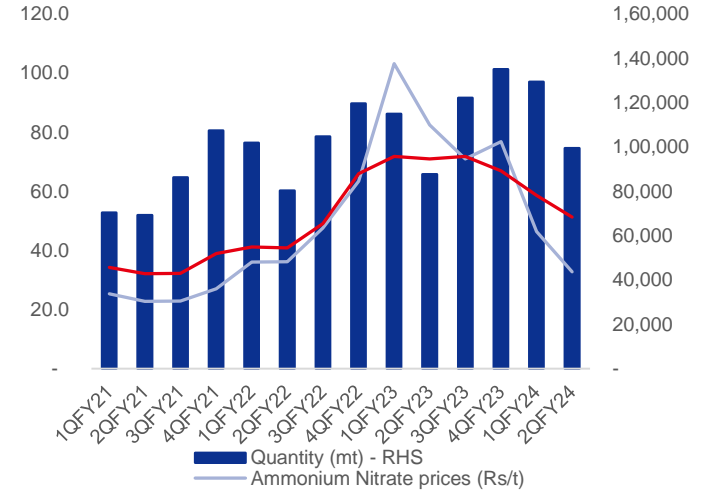
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: Favourable ammonium nitrate spreads lead to a rise in gross margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: Declining ammonium nitrate prices could lead to a rise in demand for explosives



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Mishra Dhatu Nigam (MIDHANI)

Rising nickel and titanium prices impact margins ➤

(Not Rated | M-cap: Rs70bn | CMP: Rs375)

While MIDHANI's 2QFY24 revenue (Rs2.3bn) increased by 26% yoy, its EBITDA declined by 38% yoy due to the rise in raw material prices. Raw material costs have increased significantly so far in FY24, with nickel prices rising by ~20% and titanium sponge prices rising by 40-50%, posing a challenge, as the orders were booked at fixed prices. This is due to a combination of factors, including the geopolitical situation and supply disruption. **Guidance:** MIDHANI is expecting revenue growth of ~25% in FY24F, with 2HFY24F likely to be better due to cyclicity and declining nickel prices.

Although MIDHANI expects the demand for titanium and nickel alloys to increase, the company believes that competition will also increase going ahead, which can exert pressure on margins.

The order book stood at Rs15bn in 2QFY23. MIDHANI has won new orders worth Rs7.2bn in 1HFY24. The company expects to win new orders worth ~Rs7bn in 2HFY24F.

Figure 20: MIDHANI's standalone quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg.	1QFY24	% Chg.
Net sales	2,275	1,810	26	1,877	21
EBITDA	363	587	-38	415	-13
Other income	76	94		80	
PBITDA	439	681	-36	496	-11
Depreciation	144	134	8	142	2
Interest	88	59	50	86	2
Extraordinary income	-	-		-	
PBT	206	489	-58	267	-23
Tax	68	153	-56	82	-17
Reported PAT	138	336	-59	185	-25
Adjusted PAT	138	336	-59	185	-25
EBITDA margin (%)	16.0	32.4		22.1	
Adj. EPS	0.7	1.8		1.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: Revenue and Orderbook segmentation (%)

Segments	Revenue (%)	Orderbook (%)
Defence	52%	70%
Space	30%	15%
Energy	4%	
Export	4%	15%
Others	10%	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Astra Microwave Products

Strategic partnerships and new product launches to drive the next phase of growth ➤

(Not Rated | M-cap: Rs54bn | CMP: Rs567)

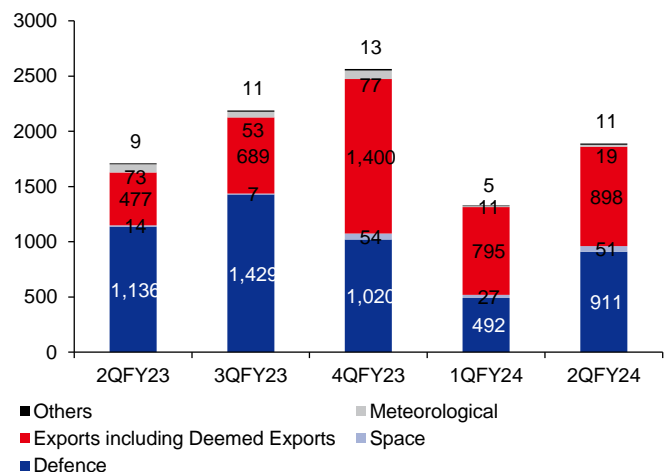
Astra Microwave reported a decent revenue growth of ~11% yoy in 2QFY24, achieving a topline of Rs1.9bn with a healthy EBITDA margin of 22%. The company booked new orders worth Rs4bn in 2QFY24, taking its total order book to Rs18.7bn (2.3x TTM sales). **Guidance:** Maintains its guidance to achieve a revenue of Rs9-9.5bn in FY24F, implying a strong growth of ~30% yoy in 2HFY24F. **Other highlights:** The company has signed a transfer of technology (ToT) with IN-SPACE, NewSpace India Limited (NSIL) and the Department of Space (DoS) to utilize its knowhow relating to MiniSAR. The company's anti-drone radar is in the final stage of testing and is expected to start field trials by the end of this year. Astra Rafael Comsys (joint venture) has bagged a few strategically important contracts worth ~US\$45m. Astra Microwave Products is one of the leading suppliers of UTTAM AESA radars and it is expecting a limited-series production order very soon from HAL.

Figure 22: Astra Microwave Products' standalone quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg.	1QFY24	% Chg.
Net sales	1,890	1,709	11	1,329	42
EBITDA	416	405	3	46	799
Other income	36	20		22	
PBITDA	452	425	6	68	562
Depreciation	62	58	8	56	11
Interest	57	66	-13	70	-18
Extraordinary income	-	-		-	
PBT	333	302	10	-57	-684
Tax	84	76	11	(14)	-701
Reported PAT	249	226	10	-43	-678
Adjusted PAT	249	226	10	-43	-678
EBITDA margin (%)	22.0	23.7		3.5	
Earnings per share (Rs)	2.6	2.6		-0.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 23: Segmental revenue (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

PTC Industries

Focus lies on strategic partnerships & future capabilities ➤

(Not Rated | M-cap: Rs77bn | CMP: Rs5,667)

PTC Industries' 2QFY24 revenue (Rs575m) witnessed a flattish growth (just 6% yoy). Higher raw material prices led to a decline in its EBITDA margin as it slipped to 27% vs. 32% in 2QFY23.

Capex: PTC Industries has acquired Vacuum Arc Remelter (VAR), Electron Beam Cold Hearth Remelting (EBCHR) furnace, Plasma Arc Melting furnace, and

Vacuum Induction Melting furnace. All this equipment will enhance its capabilities in producing critical materials like titanium alloys and nickel/cobalt superalloys. In the first phase, the company will invest ~Rs1.5bn.

The recent supply chain disruption gives PTC Industries a strategic advantage of manufacturing titanium alloy ingots out of titanium scrap. This is a highly profitable proposition for PTC Industries.

[\(Link to our recent update on Israel-Hamas war impact and opportunities\)](#)

Figure 24: PTC Industries' consolidated quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg	1QFY24	% Chg
Net sales	575	540	6	715	-20
EBITDA	157	171	-8	198	-21
Other income	28	19		29	
PBITDA	184	190	-3	227	-19
Depreciation	42	42	-1	41	0
Interest	38	45	-16	37	3
Extraordinary income	-	-		-	
PBT	105	103	2	149	-29
Tax	24	27	-11	36	-34
Reported PAT	81	77	6	113	-28
Adjusted PAT	81	77	6	113	-28
EBITDA margin (%)	27.2	31.6		27.6	
Tax rate (%)	22.6	25.8		24.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 25: PTC Industries' recent milestones

New Capabilities	
Acquisition of Vacuum Arc Remelter	- Critical for manufacturing titanium ingots from sponge (ore). - Total capacity of 1,500 tpa or tonne per annum
Acquisition of Electron Beam Cold Hearth Remelting (EBCHR) furnace	- Recycling & remelting furnace for manufacturing titanium alloy ingots from recycled titanium. - Total capacity of 5,000tpa.
Major orders & MoUs	
BAE Systems	Commenced a fabrication and assembly line Signed an agreement to produce titanium castings for 155mm Ultra-Lightweight Howitzer
Midhani	Manufacturing of titanium alloy pipes & tubes, plates & sheets, fabrication of crucial parts, etc
Bharat Dynamics	Design, develop & manufacture aero engines for missiles, UAVs, Loitering Munitions, etc.
Safran	Manufacture & supply of titanium & super alloy castings & components for LEAP engines, etc. Received an order for the development and supply of titanium cast components for aircraft engines.
DRDO	Design, development & manufacture of aero engines for missiles, UAVs, Loitering Munitions, etc.
HAL	Indigenization of aviation-grade raw materials, components, sub-systems, and systems of aero-engines of Russian-origin aircraft.
Dassault Aviation	PTC Industries is an approved supplier of cast components for aerospace applications.
Israel Aerospace Industries (IAI)	PTC Industries is an approved supplier of cast components for aerospace applications.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Zen Technologies

Strong growth momentum likely to continue ►

(Not Rated | M-cap: Rs70bn | CMP: Rs375)

Zen Technologies reported a robust revenue growth of over 200% in 2QFY24. The strong growth was further boosted by a higher EBITDA margin of 34% vs. 25% in 2QFY23 due to more orders for simulators. **Guidance:** Expects a revenue of ~Rs5bn in FY24F, implying a strong growth of over 200% and sustain the EBITDA margin (~35%). The company expects the strong revenue growth momentum to continue and expects to achieve a revenue of more than Rs10bn/Rs15bn in FY25F/26F, respectively.

The order book as on 1 Oct 2023 stood at Rs14bn (simulators – Rs5.4bn, anti-drone system – Rs6bn, AMC – Rs2.6bn). The entire equipment order book is expected to be executed by FY25F. Zen Technologies has won two new orders since 2QFY24: **(1)** Advanced Tank Training System (MoD, India) – Rs1bn. **(2)** Simulator order (export) – Rs420m.

Zen Technologies believes there are still orders worth ~Rs5bn in the pipeline in the short term. Usually, equipment orders are expected to be executed within 12 months. This gives strong execution and growth visibility for Zen Technologies.

Figure 26: Zen Technologies' standalone quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg.	1QFY24	% Chg.
Net sales	640	211	203	1,324	-52
EBITDA	218	54	304	662	-67
Other income	48	28		26	
PBITDA	266	82	224	688	-61
Depreciation	18	10	84	15	21
Interest	4	6	-31	4	28
Extraordinary income	-	-		-	
PBT	243	66	270	670	-64
Tax	70	20	250	199	-65
Reported PAT	173	46	279	471	-63
Adjusted PAT	173	46	279	471	-63
EBITDA margin (%)	34.0	25.5		50.0	
Adj. EPS	2.1	0.6		5.6	

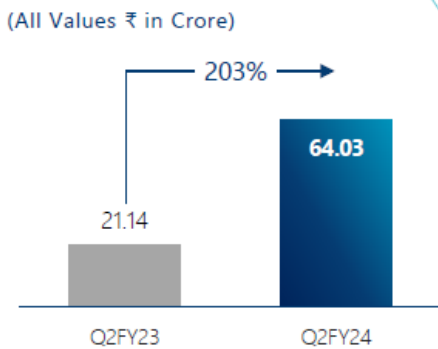
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 27: Order book details

(Rs m)	AMC	Equipment	Total
Order book (as of end-Jun 2023) - A	1,698	3,732	5,430
New order wins in 2QFY24 - B	960	8,289	9,249
Supply of anti-drone system to MoD		1600	1600
Significant order win in the export market (includes both training equipment and ADS)		3400	3400
Supply of training equipment to MoD	190	360	550
Supply of training equipment to MoD	160	560	720
Supply of training equipment to MoD	240	800	1040
Supply of anti-drone system to MoD	370	1550	1920
Orders executed - C	83	557	640
Order book (as of end-Sep 2023) - A+B-C	2,575	11,464	14,039

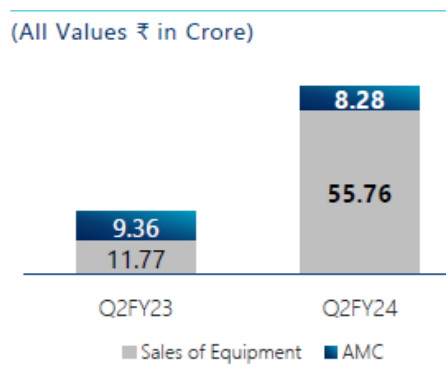
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 28: Zen Technologies' revenue growth



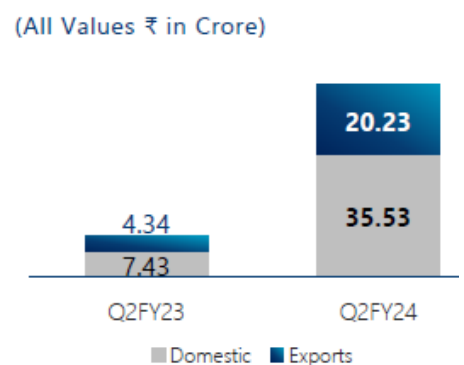
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 29: Sale of equipment vs. AMC



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: Domestic sales vs. exports



SOURCE: INCRED RESEARCH, COMPANY REPORTS

DCX Systems

Product expansion & diversification key to improve margins ►

(Not Rated | M-cap: Rs32bn | CMP: Rs327)

DCX Systems reported strong sales growth to Rs3bn (up 78% yoy) in 2QFY24. The growth was driven by strong execution of the order book (mainly system integration). This led to a better EBITDA margin of 6.2% (vs. 5.7% yoy).

Order book (as of end-Sep 2023) stood at Rs12.6bn (system integration - ~70%).

Impact due to the Israel-Hamas war: Orders from Israel contribute ~40-45% to DCX Systems' revenue. Israel mostly exports defence programs (design, development, and program management). Hence, the impact on the supply chain system is negligible. Most of the electric components are procured from the US, Singapore, Taiwan and South Korea, and hardly anything is procured from Israel.

Major updates: (1) Incorporated NIART Systems (JV with ELTA Systems) to develop an obstacle detection solution based on radars and optics for railway applications. (2) Raneal Advanced Systems: Commenced operations to manufacture printed circuit board assemblies (PCBAs). DCX Systems has invested about Rs85m after securing a term loan of ~Rs250m. The company expects to invest a further sum of Rs80-100m.

Figure 31: DCX Systems' standalone quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg.	1QFY24	% Chg.
Net sales	3,091	1,739	78	1,701	82
EBITDA	190	99	92	79	142
Other income	121	64	88	113	7
PBITDA	311	163	91	192	62
Depreciation	5	5	1	5	3
Interest	62	68	-8	69	-10
Extraordinary income	-	-	-	-	-
PBT	244	91	169	118	107
Tax	40	-12	-433	19	107
Reported PAT	204	103	99	99	107
Adjusted PAT	204	103	99	99	107
EBITDA margin (%)	6.2	5.7		4.6	
Tax rate (%)	16.3	(13.2)		16.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Premier Explosives

New order wins in 1HFY24 provide strong revenue visibility ►

(Not Rated | M-cap: Rs15bn | CMP: Rs1,424)

Premier Explosives (PEL) reported a strong 2QFY24 performance as its revenue (Rs784m) increased by 29% yoy. The defence and space segment contributed ~70% while the explosives segment contributed ~30% to its revenue. PEL also reported its highest EBITDA margin of 28%, mainly on the back of higher execution and contribution from defence orders. Export revenue was at Rs294m, comprising shipment of 116 rocket motors and HMX. **Guidance:** The company expects to generate a revenue of Rs3bn/Rs5bn in FY24F/25F, respectively. Normalized EBITDA margin is seen in the range of 18%-20%.

Orderbook: PEL won orders worth ~Rs7bn in 1HFY24, taking its total OB to Rs10.5bn (5.2x FY23 revenue). The high-margin defence segment accounted for a major portion of Rs8.8bn (~84% of OB) executable in 12-18 months. The explosives segment's orders stand at Rs510m – execution in 12-15 months and the service segment's (i.e., operational maintenance) orders at Rs1.2bn – spread over the next seven years. The company's export order book accounts for 11% of the total order book. Further, it expects significant orders for the supply of propellant for Astra, MRSAM, LRSAM and QRSAM.

Figure 32: PEL's standalone quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg.	1QFY24	% Chg.
Net sales	784	606	29	620	27
EBITDA	219	72	204	166	31
Other income	4	8		3	
PBITDA	223	80	179	169	32
Depreciation	28	24	16	27	3
Interest	33	21	62	29	16
Extraordinary income	-	-	-	-	-
PBT	162	35	356	114	42
Tax	46	10	346	32	44
Adjusted PAT	116	25	361	82	42
Gross margin (%)	46.4	32.2		49.7	
EBITDA margin (%)	27.9	11.9		26.9	
Adj. EPS	11	2	370	8	42

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 33: Order book

	Order value (Rs m)	Execution time (in months)
Order book (FY23)	5,209	
New order wins in 1HFY24	6,960	
Supply of shaft to IAF (MoD)	2,921	12
Supply of flares (MoD)	2,602	12
Supply of 50mm MTV flares (MoD)	768	12
Supply of booster grains (BDL)	97	12
Supply of PSOM-XL Motors (L&T)	139	12
P1 & P2 motor for MRSAM (BDL)	433	24
Order book (as of end-Sep 2023)	10,544	

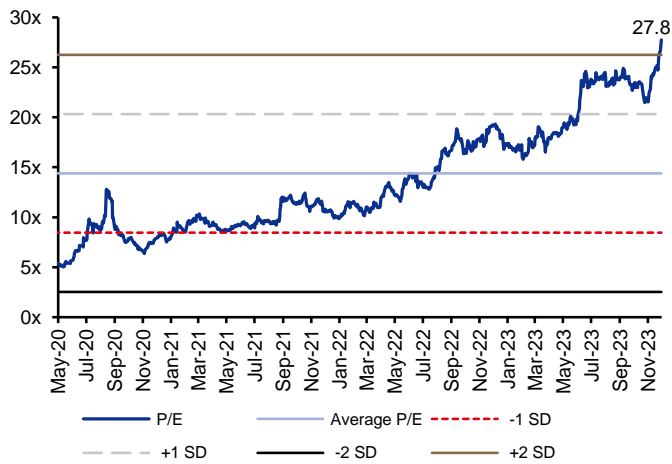
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 34: PEL's contribution to India's missile programs

Missile	Type	Stage	Client	End user	PEL's contribution
Akash	Tactical, Surface to Air	Production	Bharat Dynamics Limited (BDL)	Indian Air Force and Indian Army	Supplied 2000+ booster grains and 450+ sustainer grains
MRSAM	Tactical, Surface to Air	Production from 2019	DRDO / BDL	Indian Army	100% requirements of solid propellants
Agni	Ballistic	Production	Advanced Systems Laboratory	Strategic Forces Command	Pyrogen igniter
Brahmos	Cruise, Air launched Anti-ship, Land attack	Production	HEMRL	Indian Air Force, Indian Navy and Indian Army	Transfer of technology is under induction
LRSAM	Tactical, Surface to Air	Production	DRDO	Indian Navy	100% requirements of solid propellants
Astra	Tactical, Air to Air	Production	DRDO	Indian Air Force	100% requirements of solid propellants

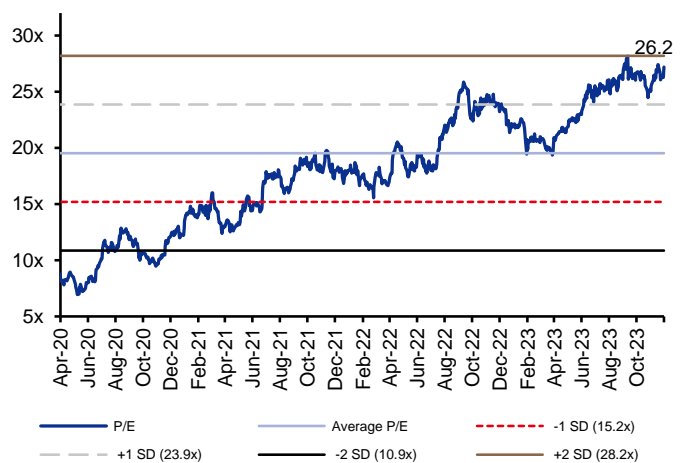
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 35: HAL's one-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 36: BEL's one-year forward P/E



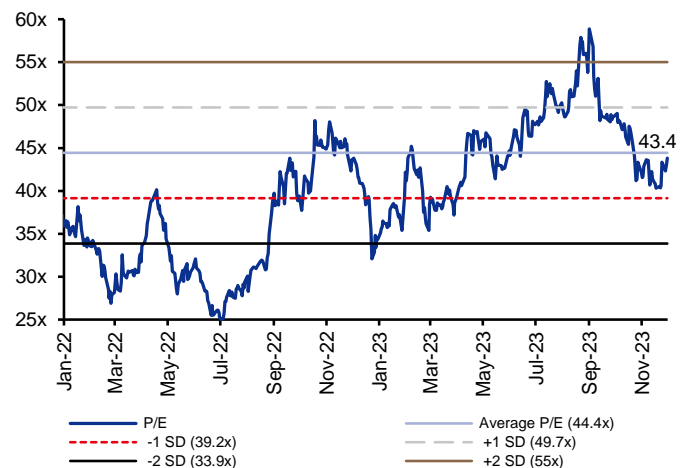
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 37: BDL's one-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 38: Data Patterns' one-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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