

India

**Overweight** (no change)

**Highlighted Companies**

**Data Patterns (India) Ltd**

**ADD, TP Rs3000, Rs1979 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 it to maintain the strong growth momentum in the medium term.

**Summary Valuation Metrics**

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Data Patterns (India) Ltd	56.36	38.59	29.21
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Data Patterns (India) Ltd	8.31	7.03	5.84
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Data Patterns (India) Ltd	0.27%	0.4%	0.53%

# Aerospace & Defence

## 3QFY24 results preview

- We expect a steady performance from Data Patterns (+43% yoy), BEL (+22% yoy), HAL (+9% yoy) and BDL (+55% yoy) as execution usually picks up in 2H.
- BEL witnessed a strong inflow of new orders as it won orders worth over Rs112bn in 3QFY23, taking the total order wins to ~Rs260bn in YTD FY23.
- We remain cautiously optimistic on the sector, and we maintain our Overweight rating on it. Our preferred stocks in the sector are Data Patterns, BEL and HAL.

### Hindustan Aeronautics: Performance to be driven by R&O revenue

After the Rs265bn order inflow in FY23, Hindustan Aeronautics or HAL's new orders may remain muted in 9MFY24F. 3QFY24F sales may be driven primarily by the Repair and Overhaul (R&O) segment & some manufacturing revenue from platforms such as Light Combat Aircraft (LCA) and Advanced Light Helicopter (ALH). We expect its EBITDA margin to be at 22%, up yoy, due to a favourable product mix. Higher other income yoy because of a strong net cash position to lift PAT growth.

### Bharat Electronics: Order win momentum continues in 3QFY24

After a strong order inflow of Rs154bn in 1HFY24, the new order win momentum continued in 3QFY24 (Rs112bn). We expect a 22% yoy growth in sales, primarily driven by increased execution of significant orders and fulfillment of delayed 2Q dispatches. The EBITDA margin is expected to remain consistent compared to the previous year. Management commentary on the order pipeline & the impact of supply chain issues are key monitorables. Bharat Electronics' order book (OB) as of 2QFY24-end was at Rs687bn (4x TTM sales).

### Data Patterns: Higher production revenue to aid growth

Data Patterns won new orders worth Rs1.3bn in 1QFY24. We expect the strong new order momentum to continue, as orders worth over Rs1bn were in the advanced stage of negotiations. The company's OB as of 1QFY24-end stood at Rs9.7bn (2x TTM sales). We expect the robust execution to continue and the EBITDA margin at 36% to remain similar yoy. Higher other income yoy because of a strong net cash position to boost PAT growth.

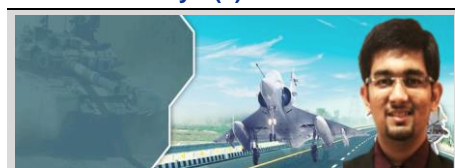
### Bharat Dynamics: We expect an uptick in execution

We expect new order wins to ramp up in 2HFY24F, aided by a robust order pipeline. We expect order execution to pick up in 2HFY24F, driven by the high order backlog and the completion of delayed projects. We expect the EBITDA margin at ~20% in 3QFY24F, which can be attributed to the pick-up in execution and easing supply chain challenges. Management's commentary on realization of large orders for future programs is crucial. As of Sep 2023-end, Bharat Dynamics or BDL's order book stood at Rs208bn (8.4x FY23 sales), implying new orders wins worth just Rs16bn in 1HFY24.

### Maintain Overweight rating on the aerospace and defence sector

We remain cautiously optimistic on the aerospace and defence sector as its valuations 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 Bharat Electronics or BEL, HAL, Data Patterns and BDL. Delay in order finalization and slower-than-expected execution are key downside risks.

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**Figure 1: 3QFY24F earnings of companies under our coverage**

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
Bharat Electronics	50,398	22	26	11,088	30	10	7,890	32	-3
Hindustan Aeronautics	62,041	10	10	13,525	37	-12	10,631	46	-14
Bharat Dynamics	7,154	55	16	1,431	61	7	1,311	57	-11
Data Patterns	1,600	43	48	646	37	58	480	44	42

SOURCE: INCRED RESEARCH, COMPANY REPORTS

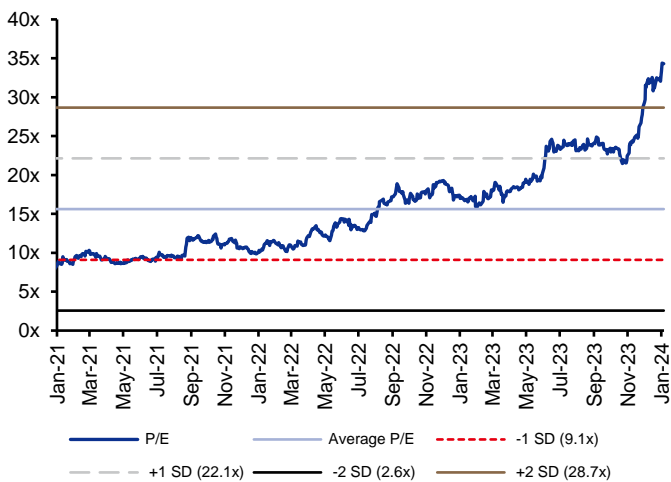
## 3QFY24 results preview

**Figure 2: 3QFY24F financials of companies under our coverage**

Company	3QFY24F	3QFY23	yoy %	2QFY24	qoq %	Comments
<b>Bharat Electronics</b>						
Sales (Rs m)	50,398	41,310	22.0	39,933	26.2	We expect a 22% yoy growth in sales, led by execution pick-up and fulfillment of delayed 2Q dispatches. The EBITDA margin is expected to remain consistent yoy. Management commentary on the order pipeline and the impact of supply chain challenges are key monitorables.
EBITDA (Rs m)	11,088	8,535	29.9	10,044	10.4	
EBITDA margin %	22.0	20.7		25.2		
Adj. PAT (Rs m)	7,890	5,988	31.8	8,123	(2.9)	
<b>Hindustan Aeronautics</b>						
Sales (Rs m)	62,041	56,659	9.5	56,358	10.1	We expect its sales to grow by 9% yoy in 3QFY24F, driven by strong execution in the services (R&O) segment and some deliveries of manufacturing orders. We expect the EBITDA margin at 22%, which is up yoy. Higher other income yoy because of a strong net cash position is likely to boost PAT growth.
EBITDA (Rs m)	13,525	9,855	37.2	15,288	(11.5)	
EBITDA margin %	21.8	17.4		27.1		
Adj. PAT (Rs m)	10,631	7,265	46.3	12,353	(13.9)	
<b>Bharat Dynamics</b>						
Sales (Rs m)	7,154	4,615	55.0	6,158	16.2	We expect strong revenue growth in 3QFY24F due to a lower base yoy, as we expect an uptick in BDL's order execution. We expect the EBITDA margin at 20% in 3QFY24F. Management commentary on realization of large orders, availability of certain critical components and supply chain challenges remain key monitorables.
EBITDA (Rs m)	1,431	889	61.0	1,340	6.8	
EBITDA margin %	20.0	19.3		21.8		
Adj. PAT (Rs m)	1,311	837	56.6	1,471	(10.8)	
<b>Data Patterns</b>						
Sales (Rs m)	1,600	1,118	43.1	1,083	47.7	We expect the robust execution to continue and the EBITDA margin at 40% to remain similar yoy. Higher other income yoy, due to strong net cash position, to boost PAT growth. New order win momentum is expected to continue, as several orders were in advanced stages of negotiation as of Sep 2023-end.
EBITDA (Rs m)	646	470	37.3	408	58.5	
EBITDA margin %	40.4	42.1		37.6		
Adj. PAT (Rs m)	480	333	43.9	338	41.9	

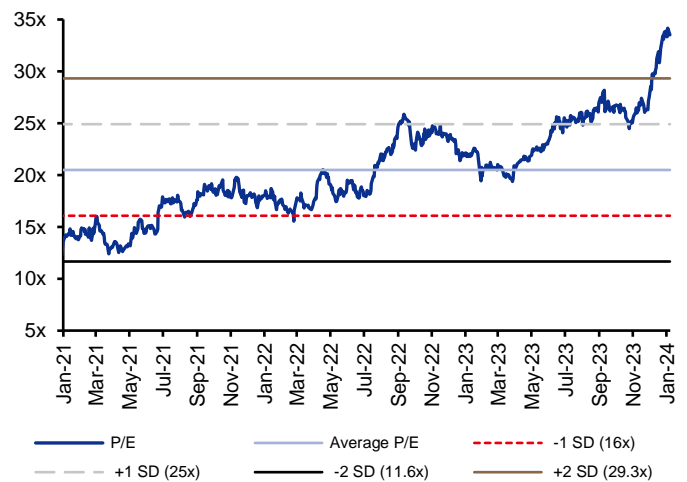
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: HAL's one-year forward P/E**



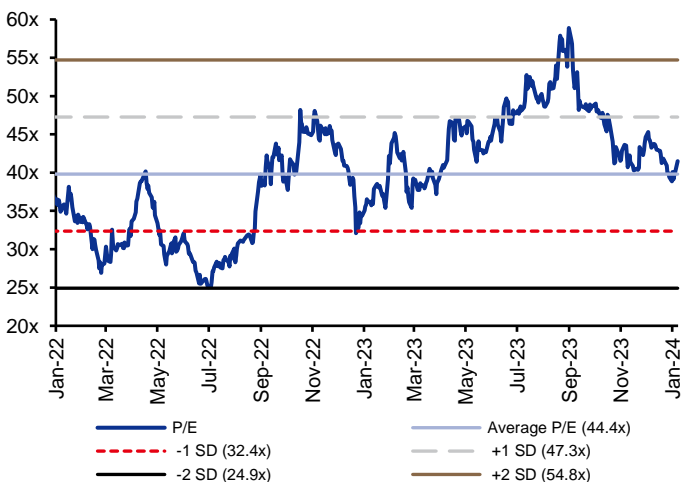
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: BEL's one-year forward P/E**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Data Patterns' one-year forward P/E**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: BDL's one-year forward P/E**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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