

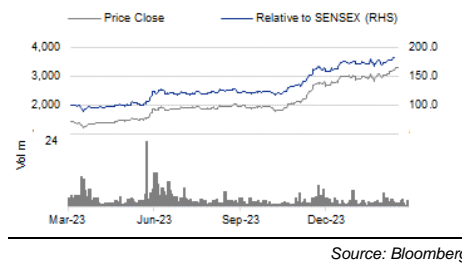
India

ADD (no change)

Consensus ratings*: Buy 11 Hold 1 Sell 1	
Current price:	Rs3,317
Target price: ▲	Rs3,680
Previous target:	Rs2,500
Up/downside:	10.9%
InCred Research / Consensus:	14.2%
Reuters:	HIAE.NS
Bloomberg:	HNAL IN
Market cap:	US\$26,799m
	Rs2,218,527m
Average daily turnover:	US\$55.5m
	Rs4593.9m
Current shares o/s:	668.8m
Free float:	24.9%
*Source: Bloomberg	

Key changes in this note

- Raise FY25F/26F EPS by 1-2%.
- Roll forward our target price to FY26F EPS.



Price performance	1M	3M	12M
Absolute (%)	11.9	21.4	132.9
Relative (%)	7.8	14.3	89.6

Major shareholders	% held
Promoter	75.2
HDFC Mutual Fund	3.8
LIC	2.9

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Hindustan Aeronautics Ltd

Healthy order book provides growth visibility

- HAL's current order book of Rs848bn, with a strong pipeline of Rs2.1tr (Rs0.5tr in near term & Rs1.6tr in medium term), ensures healthy execution visibility.
- The govt's nod to grant Rs150bn for design & prototype development of AMCA showcases HAL's strategic importance in India's fighter aircraft programme.
- We raise our P/E multiple to 34x FY26F EPS as we feel the stock will sustain its superior P/E multiple. Retain our ADD rating with a higher TP of Rs3,680.

Strong order book provides healthy revenue visibility

As of end-Dec 2023, Hindustan Aeronautics (HAL) maintains a robust order book worth Rs848bn, primarily driven by the production of helicopters and aircraft, amounting to Rs566bn. The key orders include 83 Light Combat Aircraft-Mk1A, 70 HTT-40, 6 LCA IOC/FOC, 4 Do-228, and various aerospace structures for Polar Satellite Launch Vehicle (PSLV) & Geosynchronous Satellite Launch Vehicle (GSLV). Also, the Repair and Overhaul (ROH) order book stands at Rs283bn, which is likely to remain strong as HAL engages in the lifelong maintenance of its own as well as other manufacturers' aircraft nationwide.

Robust order pipeline gives medium-term outlook

The visibility on future orders remains strong wherein the orders for procurement of new platforms viz. Advanced Light Helicopter (ALH), Light Utility Helicopter (LUH), Additional Su-30, AL31 FP Engines and RD-33 Engines and mid-life upgrade of Do-228 aircraft, aggregating to R550bn, are in advanced stage of finalization and are likely to be received within the next three-to-six months. Also, orders for procurement of additional 97 LCA Mk1A, 156 Light Combat Helicopter (LCH) and 60 Utility Helicopter-Maritime (UHM), among others, aggregating to Rs1.6tr, have been approved by the Defence Acquisition Council and the orders against the same are likely within the next 18-24 months.

Recent developments indicate HAL's strategic importance

HAL plays a strategic role in India's defence programme, being the major Indian company having specialization in aircraft manufacturing. In Mar 2024, in a major development, the Cabinet Committee on Security (CCS) cleared the proposal to develop a 5th generation stealth fighter aircraft under the advanced medium combat aircraft (AMCA) programme. CCS has approved a sum of Rs150bn. Under this project, the Aeronautical Developmental Agency in partnership with HAL, will build around five prototypes in around five years.

Reiterate ADD rating with a higher target price of Rs3,680

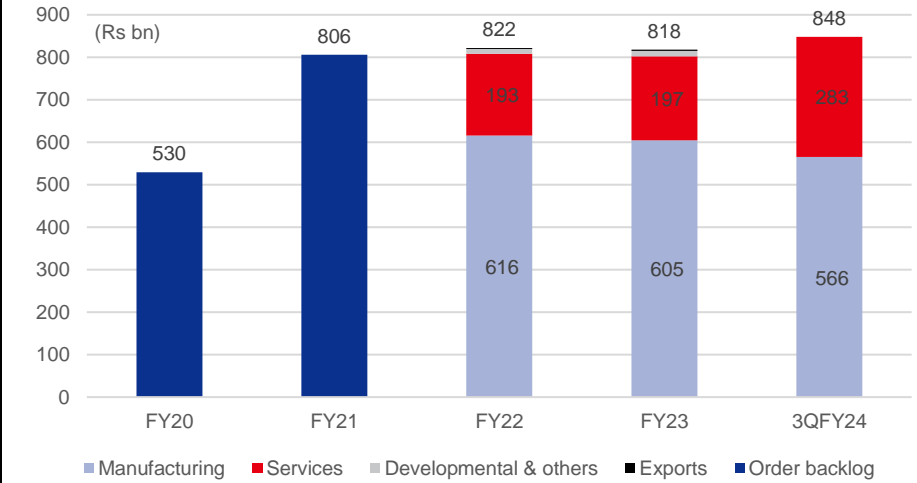
HAL's order pipeline remains solid, but the order finalization timeline is critical to maintaining the growth momentum in FY24F and beyond. We marginally raise our EPS estimates by 1.6%/2.2% for FY25F/26F. Based on FY26F EPS, we raise our target price on HAL to Rs3,680 (from Rs2,500 earlier), implying a P/E of 35x vs. 25x earlier (considering the strong order pipeline, better working capital position and margin profile), and maintain our ADD rating on it. Delay in new orders, setback in aircraft delivery timeline and lower margins are the key downside risks.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	246,202	269,279	297,838	332,634	384,308
Operating EBITDA (Rsm)	54,128	66,630	72,942	83,917	101,737
Net Profit (Rsm)	36,310	42,682	50,841	58,449	71,229
Core EPS (Rs)	54.3	63.8	76.0	87.4	106.5
Core EPS Growth	12.4%	17.5%	19.1%	15.0%	21.9%
FD Core P/E (x)	61.10	51.98	43.64	37.96	31.15
DPS (Rs)	20.0	25.0	21.9	25.1	30.6
Dividend Yield	0.60%	0.75%	0.66%	0.76%	0.92%
EV/EBITDA (x)	38.34	30.25	27.27	23.46	18.81
P/FCFE (x)	(82.88)	70.80	73.04	58.62	29.13
Net Gearing	(74.5%)	(86.4%)	(84.6%)	(79.9%)	(83.9%)
P/BV (x)	11.52	9.44	8.18	7.09	6.10
ROE	21.0%	20.0%	20.1%	20.0%	21.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Healthy order book provides growth visibility

Figure 1: HAL's order backlog



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Estimated break-up of manufacturing orders

Estimated Manufacturing Orders (FY23)	Amount (Rs bn)	(%)
LCA Mk1A	360	60
HTT-40	68	11
ALH Dhruv	60	10
LCH Prachand	60	10
LUH	15	2
PSLV	9	1
Others	33	5
Total	605	100

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Expected order finalization in FY24F

Product	Order pipeline in short term		
	Quantity	Amount (Rs bn)	Expected order finalization
Advanced Light Helicopter (ALH)	25	35	FY24F
RD-33 Engine	80	53	FY24F
Light Utility Helicopter (LUH)	12	25	FY24F
Sukhoi-30 MKI	12	120	FY24F
AL-31 FP Engine	240	260	FY24F
Maintenance repair and overhaul (MRO) & spare parts			

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Expected orders in the pipeline in medium term

Product	Order pipeline in medium term (2-5 years)		
	Quantity	Amount (Rs bn)	Expected order finalization
Light Combat Aircraft (LCA) Mk1A	97	670	FY26F
Light Combat Helicopter (LCH)	145	450	FY26F
Light Utility Helicopter (LUH)	175	350	FY26F
Utility Helicopters Marine (UHM)	60	200	FY30F
HTT-40	36	35	FY26F
Dornier 228 (Do-228) upgrades	60	NA	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Expected orders in the pipeline in long term

Product	Order pipeline (beyond 5 years)		
	Qty	Amount (Rs bn)	Expected order finalization
Light Combat Aircraft (LCA) Mk2 - test	110	~700	FY27F
Light Combat Aircraft (LCA) Navy	100	~510	FY30F
Indian Multi Role Helicopter (IMRH)	314	~850	FY30F
Multi-Role Fighter Aircraft (MRFA)	114	~1,400	FY30F
Advanced Medium Combat Aircraft (AMCA)	96	~700	FY30F

SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **1 Mar 2024:** The defence ministry signed a contract with HAL to manufacture and supply RD-33 engine for MiG-29 aircraft.

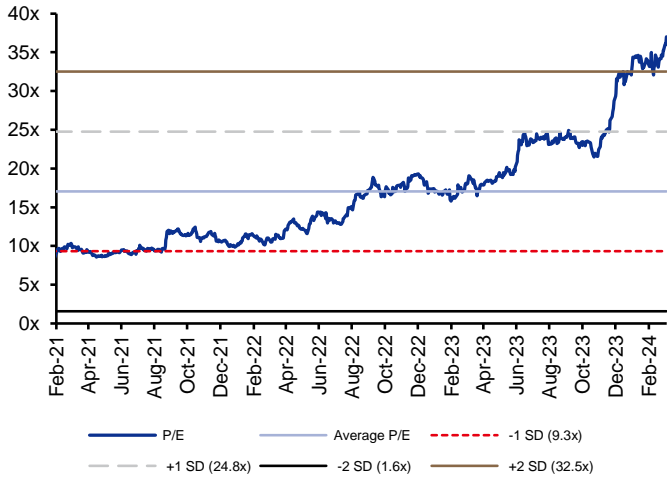
- **8 Mar 2024:** The Cabinet Committee on Security or CCS clears the proposal to procure 34 ALH (25 for Indian Army and 9 for Indian Coast Guard). CCS approval is the final step before order finalization.

Figure 6: Earnings revision summary

(Rs m)	Old estimates			New estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	2,97,838	3,29,837	3,79,604	2,97,838	3,32,634	3,84,308	0.0%	0.8%	1.2%
EBITDA	72,942	82,740	99,758	72,942	83,917	1,01,737	0.0%	1.4%	2.0%
Core PAT	50,841	57,533	69,688	50,841	58,449	71,229	0.0%	1.6%	2.2%

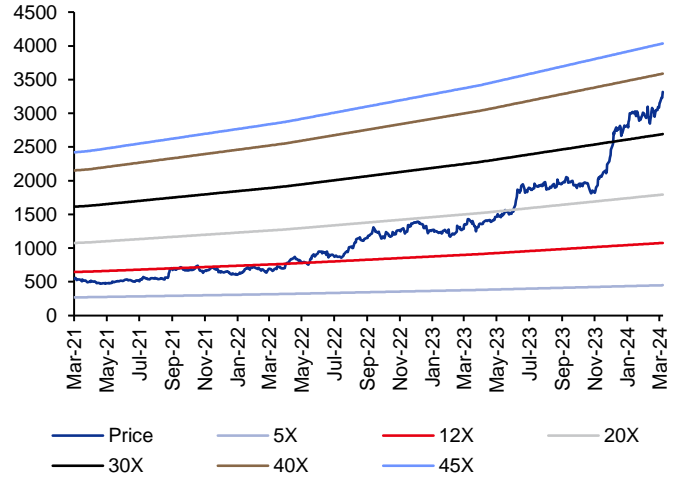
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: HAL continues to trade at a premium valuation of 37x its one-year forward EPS



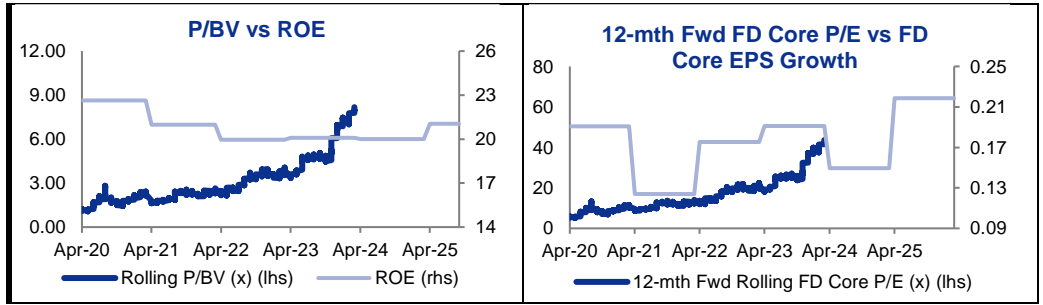
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: HAL's P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	246,202	269,279	297,838	332,634	384,308
Gross Profit	146,160	168,099	178,703	199,581	230,585
Operating EBITDA	54,128	66,630	72,942	83,917	101,737
Depreciation And Amortisation	(11,099)	(17,839)	(15,386)	(16,786)	(18,386)
Operating EBIT	43,030	48,791	57,557	67,132	83,352
Financial Income/(Expense)	(581)	(579)	(579)	(579)	(579)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	7,236	11,023	8,345	8,545	8,745
Profit Before Tax (pre-EI)	49,684	59,235	65,322	75,098	91,518
Exceptional Items					
Pre-tax Profit	49,684	59,235	65,322	75,098	91,518
Taxation	(13,374)	(16,552)	(14,481)	(16,648)	(20,289)
Exceptional Income - post-tax					
Profit After Tax	36,310	42,682	50,841	58,449	71,229
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	36,310	42,682	50,841	58,449	71,229
Recurring Net Profit	36,310	42,682	50,841	58,449	71,229
Fully Diluted Recurring Net Profit	36,310	42,682	50,841	58,449	71,229

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	54,128	66,630	72,942	83,917	101,737
Cash Flow from Invt. & Assoc.	(1,817)	(1,700)	(7,620)	(8,820)	(10,220)
Change In Working Capital	12,589	4,556	(21,430)	(20,471)	5,953
(Incr)/Decr in Total Provisions	56	149			
Other Non-Cash (Income)/Expense	12,863	23,813	15,386	16,786	18,386
Other Operating Cashflow	37,332	37,190			
Net Interest (Paid)/Received	3,662	14,405	7,766	7,966	8,166
Tax Paid	(10,532)	(27,557)	(14,481)	(16,648)	(20,289)
Cashflow From Operations	100,958	88,677	37,031	46,798	87,402
Capex	(7,989)	(7,823)	(15,000)	(17,500)	(20,000)
Disposals Of FAs/subsidiaries	32	51			
Acq. Of Subsidiaries/investments	(2,448)	(1,062)			
Other Investing Cashflow	(117,229)	(48,509)	8,345	8,545	8,745
Cash Flow From Investing	(127,634)	(57,343)	(6,655)	(8,955)	(11,255)
Debt Raised/(repaid)	(91)				
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(13,376)	(16,719)	(14,628)	(16,816)	(20,493)
Preferred Dividends					
Other Financing Cashflow	(24)	(594)	(579)	(579)	(579)
Cash Flow From Financing	(13,491)	(17,313)	(15,207)	(17,396)	(21,073)
Total Cash Generated	(40,167)	14,020	15,169	20,447	55,074
Free Cashflow To Equity	(26,767)	31,333	30,376	37,843	76,147
Free Cashflow To Firm	(26,095)	31,912	30,955	38,422	76,726

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	143,436	203,062	229,488	249,935	305,010
Total Debtors	46,416	47,191	52,196	58,294	67,349
Inventories	143,636	121,607	134,504	150,218	173,554
Total Other Current Assets	138,826	187,092	206,934	231,110	267,012
Total Current Assets	472,313	558,950	623,122	689,558	812,925
Fixed Assets	92,300	87,112	86,727	87,441	89,055
Total Investments	12,941	13,854	13,854	13,854	13,854
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	105,242	100,967	100,581	101,295	102,910
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	25,598	31,373	34,701	38,755	44,775
Other Current Liabilities	364,972	404,739	417,727	439,190	507,416
Total Current Liabilities	390,570	436,112	452,427	477,945	552,191
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions					
Total Liabilities	390,570	436,112	452,427	477,945	552,191
Shareholders Equity	192,640	235,062	271,276	312,908	363,644
Minority Interests					
Total Equity	192,640	235,062	271,276	312,908	363,644

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	8.2%	9.4%	10.6%	11.7%	15.5%
Operating EBITDA Growth	1.2%	23.1%	9.5%	15.0%	21.2%
Operating EBITDA Margin	22.0%	24.7%	24.5%	25.2%	26.5%
Net Cash Per Share (Rs)	214.48	303.63	343.15	373.72	456.07
BVPS (Rs)	288.05	351.48	405.63	467.88	543.75
Gross Interest Cover	74.01	84.25	99.39	115.92	143.93
Effective Tax Rate	26.9%	27.9%	22.2%	22.2%	22.2%
Net Dividend Payout Ratio	36.8%	39.2%	28.8%	28.8%	28.8%
Accounts Receivables Days	76.21	63.44	60.90	60.62	59.67
Inventory Days	564.12	478.42	392.33	390.53	384.38
Accounts Payables Days	87.67	102.76	101.22	100.75	99.17
ROIC (%)	140.6%	708.2%	206.0%	136.7%	186.1%
ROCE (%)	24.9%	22.8%	22.7%	23.0%	24.6%
Return On Average Assets	6.7%	7.0%	7.4%	7.8%	8.4%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Manufacturing	73,750	47,400	55,810	73,620	111,620
RoH	155,359	188,170	201,103	212,562	223,030
Orderbook to sales (x)	4	3	5	5	5
Order backlog	821,540	817,840	1,220,675	1,417,814	1,635,229

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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