

## India

**Overweight** (no change)**Highlighted Companies****Hindustan Aeronautics****ADD, TP Rs6325, Rs4973 close**

The order book is up 101% YoY at Rs1.89tr; Rs1tr order pipeline supports revenue visibility; diversified backlog assures growth. The Rs150bn capex over a period of five years boosts capacity; EPS estimated at +16% YoY in FY26F and +18% YoY in FY27F; fleet upgrades (Jaguar/Mirage out, AMCA/Su-57 in) to aid the company's OEM & MRO divisions.

**Bharat Electronics****ADD, TP Rs459, Rs408 close**

The order book stands at Rs716bn; Rs570bn FY26F inflow + multimillion-dollar project pipeline ensures revenue visibility. Operation Sindoor's success + Atmanirbharta (DAC 2020) makes the company a key government-trusted indigenization & defence electronics partner.

**Summary Valuation Metrics**

P/E (x)	Mar25-A	Mar26-F	Mar27-F
Hindustan Aeronautics	43.2	37.2	31.5
Bharat Electronics	56.4	47.9	39.3

P/BV (x)	Mar25-A	Mar26-F	Mar27-F
Hindustan Aeronautics	9.5	8.1	6.9
Bharat Electronics	14.9	12.3	10.1

Dividend Yield	Mar25-A	Mar26-F	Mar27-F
Hindustan Aeronautics	0.8%	0.9%	1.0%
Bharat Electronics	0.6%	0.7%	0.8%

# Aerospace & Defence

## Accelerating along a robust growth trajectory

- In FY26, the defence ministry has been allocated Rs6.81tr, the highest among all ministries, accounting for 13% of the central government's total expenditure.
- Defence exports rose by 13x since FY16, private sector exports rose by 67x & domestic procurement share surged to 75%, with large headroom for growth.
- Geopolitical tensions with China/Pak to increase govt. spending in the coming years. HAL and BEL (~50% of DPSU production) to be the major beneficiaries.

**Rs6.81tr budget, 13% capex hike power modernization**

India's defence landscape is poised for transformative growth, underpinned by a record Rs6.81tr allocation in 2025-26—13% of total central expenditure—and a decade-long compound annual spending increase of 9%. A decisive 13% boost in capital outlay further marks the government's commitment to cutting-edge modernization, funding advanced arms, naval vessels, aircraft, R&D, and critical border infrastructure. This dual thrust of robust budgeting and elevated capital investment not only secures operational readiness but also catalyzes indigenous innovation and strategic self-reliance, charting a clear trajectory towards technological transformation and sustained sectoral growth.

**India boosts domestic procurement to 75% of capital budget**

Capital procurement from domestic sources has increased from 54% in FY18-19 to a robust 75% (approximately Rs1tr) in FY23-24, a benchmark sustained in FY24-25 (Rs1.05tr) and FY25-26 (Rs1.11tr). This steady rise—marked by 59% in 2019-20, 64% in 2020-21, 65.5% in 2021-22, and 68% in 2022-23—reflects a deliberate policy to bolster India's defence equipment manufacturing capabilities. This focus on domestic procurement has significantly empowered domestic players, enabling substantial growth for both defence public sector undertakings (DPSUs) and private companies. By prioritizing local sourcing, the government has reduced its reliance on foreign suppliers.

**Geopolitical tensions to drive defence budget expansion**

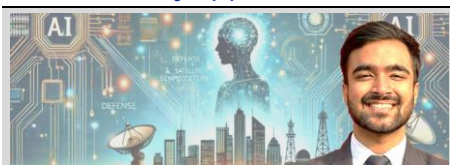
The Ministry of Defence or MoD's budget for FY26BE stands at Rs6.81tr, marking a 6.3% year-on-year increase. However, due to escalating geopolitical tensions, particularly in the Indo-Pacific region and along India's borders with China and Pakistan, we project the budget to rise by ~10% YoY in FY27F, reaching around ~Rs7.49tr. These tensions necessitate enhanced defence capabilities, especially in air defence and air force domains, to address strategic challenges and ensure national security. The increased allocation will support modernization efforts, with a strong emphasis on indigenous production through DPSUs and growing private sector involvement.

**HAL is a clear beneficiary of indigenization with robust growth; ADD**

Hindustan Aeronautics or HAL's order book has soared to Rs1.89tr (+101% YoY), bolstered by a Rs1tr upcoming project pipeline, ensuring strong revenue visibility. A Rs0.5tr capex plan over five years will drive capacity expansion, supporting revenue growth of 15% in FY26F and 21% in FY27F. As the Indian Air Force or IAF phases out its aging Jaguar and MiG-29 fleets, HAL's role in supplying indigenous platforms like LCA Tejas and AMCA positions it for sustained growth, with EPS expected to rise by 16% YoY in FY26F and 18% in FY27F—making it a standout investment, with a target price of Rs6,325, based on a 40× P/E on Mar FY27F estimates.

**BEL is a battle-tested leader with strong order pipeline; ADD**

Bharat Electronics or BEL has a Rs0.7tr order book, with Rs0.57tr in expected orders by FY26F, including the Rs0.3tr QRSAM contract, securing revenue confidence. Operation Sindoor showcased its technological prowess, enhancing its global credibility and export potential. As a trusted government partner in defence electronics, BEL leverages India's indigenization push, with its order book projected to hit Rs1tr by FY26F. BEL's proven execution and strategic edge make it a compelling buy, with a target price of Rs459, based on a 44× P/E applied to the forecasted FY27F EPS of Rs10.4.

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## Industry Overview

The defence sector in India plays a pivotal role in ensuring national security and sovereignty, driven by the strategic oversight of the ministry of defence. Over the past decade, India's defence sector growth has been driven primarily by government budgets and policies that promote domestic production. **The Ministry of Defence's budget has roughly doubled, from ~Rs2.7tr in 2015–16 to ~Rs6.8tr in 2025–26.**

The government's 'Make in India' initiative and policies like the Defence Acquisition Procedure 2020 prioritize domestic procurement, with approximately 75% of the modernization budget allocated to local industries. This focus has positioned DPSUs as the backbone of India's defence manufacturing ecosystem, producing everything from aircraft and electronics to naval vessels and weaponry.

### Dominance of DPSUs, particularly HAL and BEL in defence production ➤

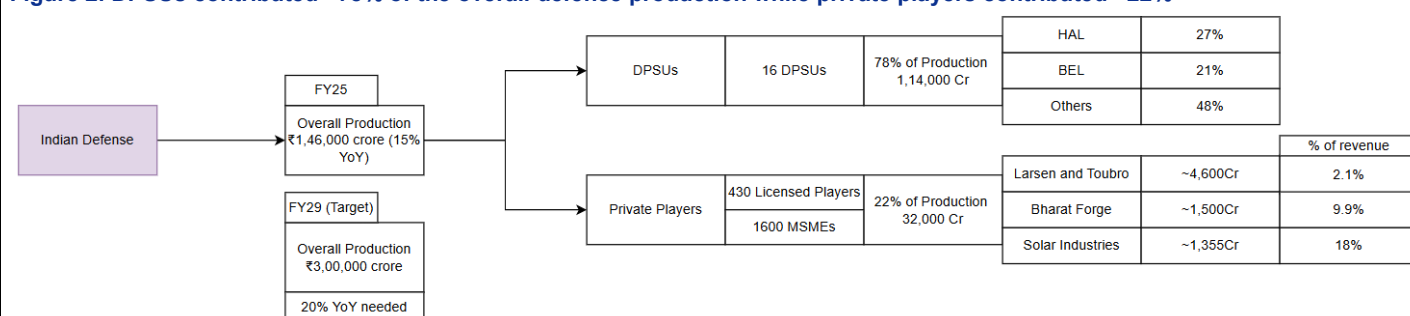
Among the DPSUs, **Hindustan Aeronautics (HAL)** and **Bharat Electronics (BEL)** stand out as the leading contributors, collectively accounting for **~50% of the total production by DPSUs**. HAL, a Navratna company, contributes ~27% of the production, specializing in fighter aircraft, helicopters, and avionics, including the indigenous Light Combat Aircraft Tejas and Advanced Light Helicopter Dhruv. BEL, with a ~21% share, focuses on advanced electronics such as radars, communication systems, and electronic warfare equipment, serving both defence and non-defence sectors.

**Figure 1: HAL and BEL dominate DPSUs production (FY25)**

Company	Percentage	Key Products
HAL	27%	Fighter aircraft, helicopters, avionics
BEL	21%	Radars, communication systems, electronic warfare
MDL	10%	Warships, submarines
BEML	4%	Heavy vehicles, earth-moving equipment
BDL	3%	Missiles, torpedoes
AVNL	4%	Armoured vehicles, artillery
Others	31%	NA

SOURCE: PIB GOVT. OF INDIA, COMPANY REPORTS

**Figure 2: DPSUs contributed ~78% of the overall defence production while private players contributed ~22%**



SOURCE: PIB, INCRED RESEARCH

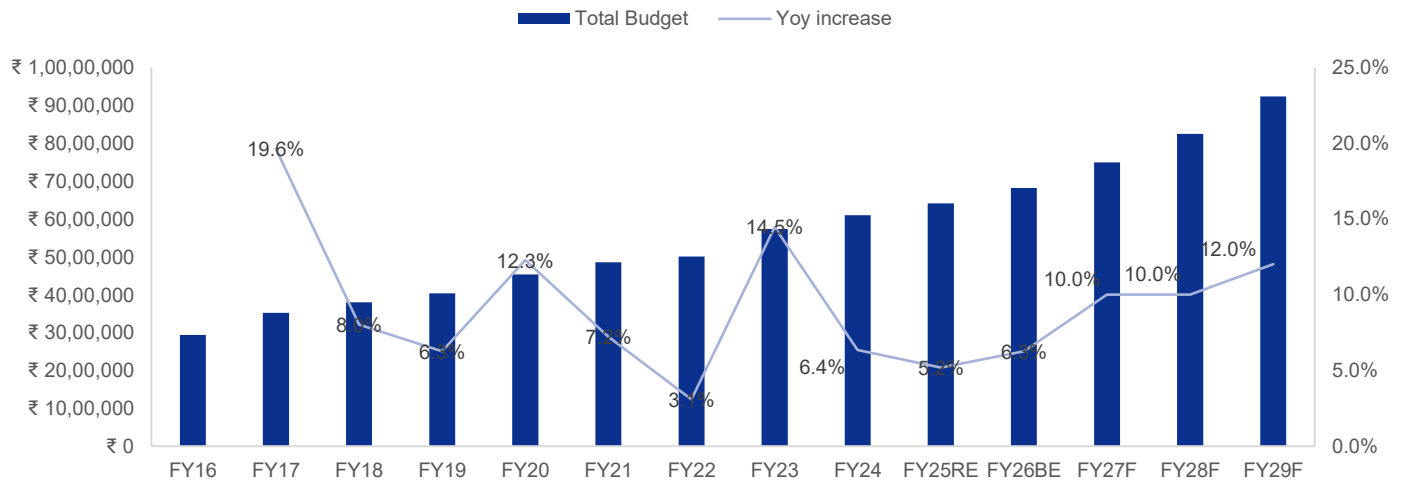
### FY26BE is Rs6.81tr, up 6.3% YoY but considering the geo political tensions, we project it to rise by ~10% in FY27F ➤

The Ministry of Defence's budget has seen consistent growth, reflecting India's commitment to strengthening its defence capabilities. **In 2025-26, the ministry has been allocated Rs6.81tr, the highest among all ministries, accounting for 13% of the central government's total expenditure.** This allocation covers salaries, pensions, modernization, maintenance, production establishments, and research and development. **From 2013-14 to 2025-26F, defence spending grew at an impressive annual rate of 9%.**

Going ahead, **we project the defence budget to grow by 10% YoY in FY27F, driven by rising geopolitical pressure, particularly in the Indo-Pacific region**

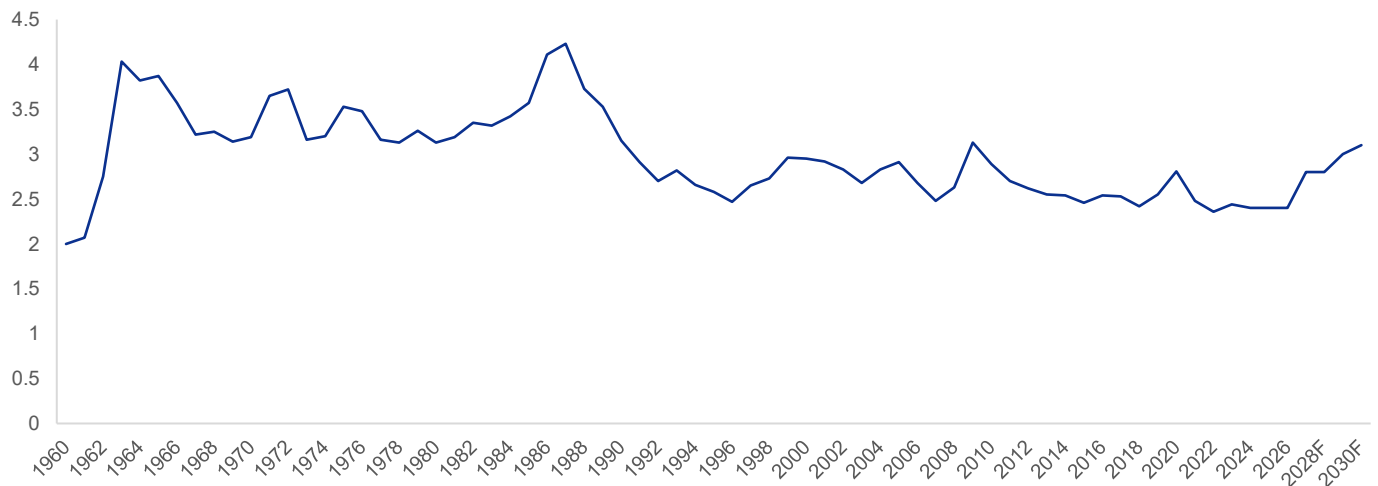
**and along India's borders with China and Pakistan.** This projected increase from Rs6.81tr to approximately Rs7.4tr is largely needed for enhancing India's air defence and air force capabilities. The focus on indigenous production, supported by DPSUs and increasing private sector participation, is expected to continue, with policies aimed at reducing import dependency and boosting defence exports.

**Figure 3: The defence budget is on a steady average growth rate of 9%, and we project the budget to grow by 10% YoY in FY27F due to rising geopolitical pressure (Rs m)**



SOURCE: MINISTRY OF DEFENSE, INCRED RESEARCH

**Figure 4: The defence budget, as a percentage of India's GDP, is on the decline but we expect it to recover and reach ~3% by FY30F considering the urgent need for upgradation, especially in the air force and air defence technologies**

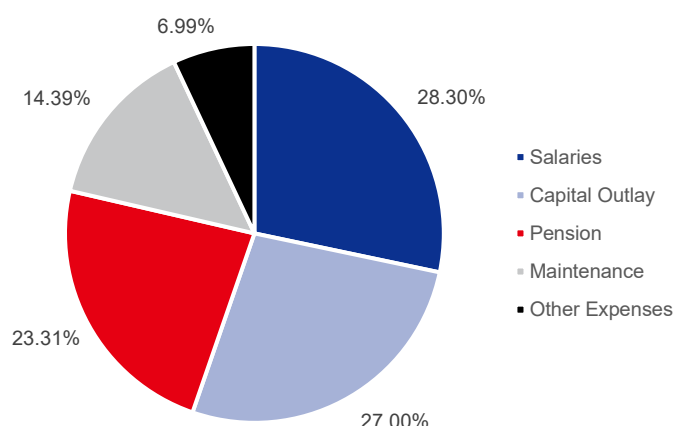


SOURCE: WORLD BANK, INCRED RESEARCH

### Robust budget composition drives the defence sector's strength ➤

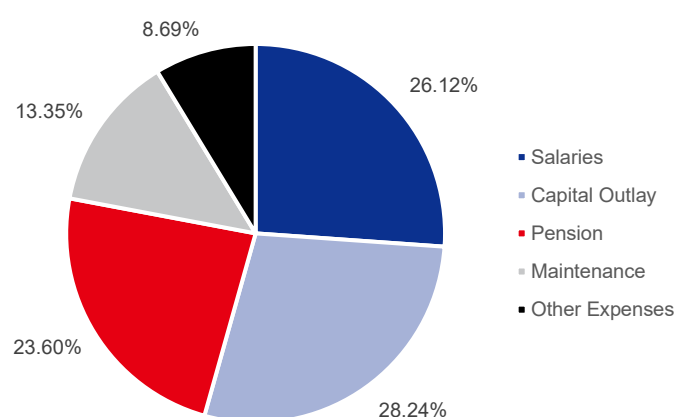
The defence budget for 2025-26, allocated at Rs6.81tr, reflects a robust 6% increase over the revised estimates of 2024-25, marking India's commitment to bolstering its defence infrastructure. This allocation encompasses a balanced mix of expenditures, with **50% directed towards salaries and pensions**, ensuring the welfare and operational readiness of the armed forces and civilian staff. Additionally, the budget supports critical areas such as transportation, the Agnipath scheme, Rashtriya Rifles, and other establishment costs, fostering a comprehensive ecosystem that strengthens national security. The budget's strategic composition highlights India's focus on sustaining a well-equipped and motivated defence force, poised for growth and resilience.

Figure 5: Defence budget allocation 2023-24



SOURCE: INCRED RESEARCH, GOI

Figure 6: Defence budget allocation 2025-26

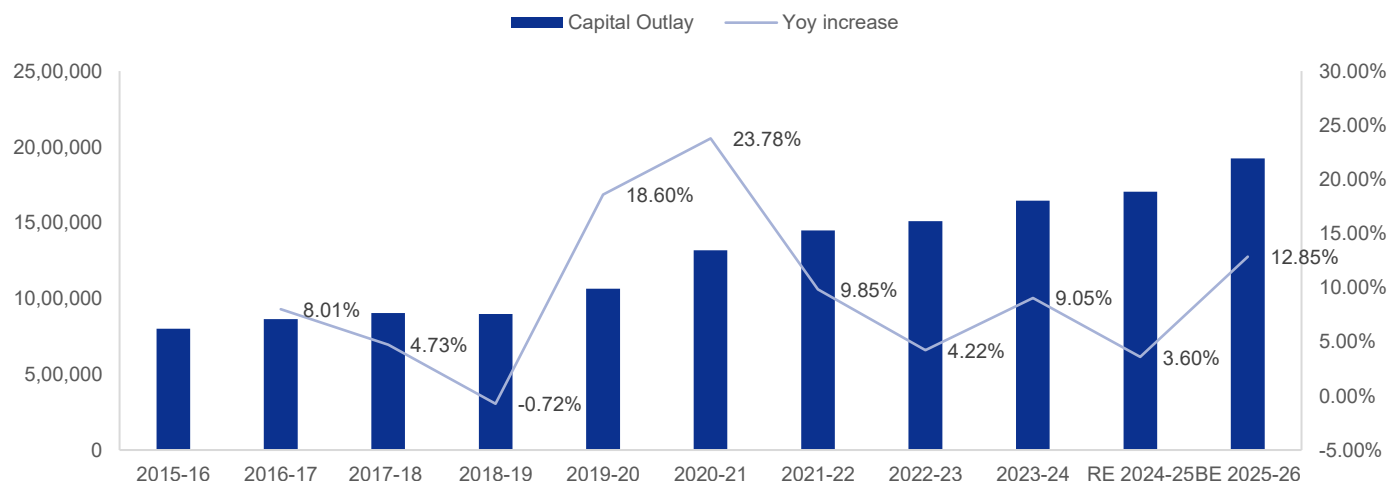


SOURCE: INCRED RESEARCH, GOI

### Surging capital outlay fuels modernization ➤

Capital outlay, a cornerstone of defence modernization, is set to rise by an impressive 13% in 2025-26 compared to the revised estimates of 2024-25, signaling a strong push towards advanced military capabilities. **This allocation, accounting for 28% of the defence budget, funds the acquisition of cutting-edge arms, ammunition, and equipment, including tanks, naval vessels, and aircraft, alongside research and development and border infrastructure projects.** The increased focus on capital expenditure marks India's proactive efforts to enhance operational preparedness and self-reliance, positioning the defence sector as a dynamic driver of technological innovation and strategic dominance.

Figure 7: Capital outlay over the years



SOURCE: INCRED RESEARCH, GOI

### Make in India catalyzes indigenous defence manufacturing ➤

The Make in India initiative has significantly transformed India's defence sector, driving a surge in indigenous production and reducing the reliance on imports. **Domestic defence production grew at an annual rate of 8% from 2016-17 to 2023-24, reaching Rs1.27tr in 2023-24.**

The Ministry of Defence has bolstered this growth through policies like the Defense Acquisition Procedure 2020, amended in 2023 to **mandate at least 50% indigenous content in all procurement categories.** Furthermore, the release of five positive indigenization lists, covering 5,012 defence items under a

**staggered import embargo, has resulted in 61% of these items being indigenized by 2024.**

This strategic push has empowered domestic industries, with 95% of the Rs4tr worth of 40 capital acquisition proposals approved in 2024 sourced locally, including combat vehicles, anti-tank mines, and air defense radars.

### Defense production soars with PSU and private sector synergy ➤

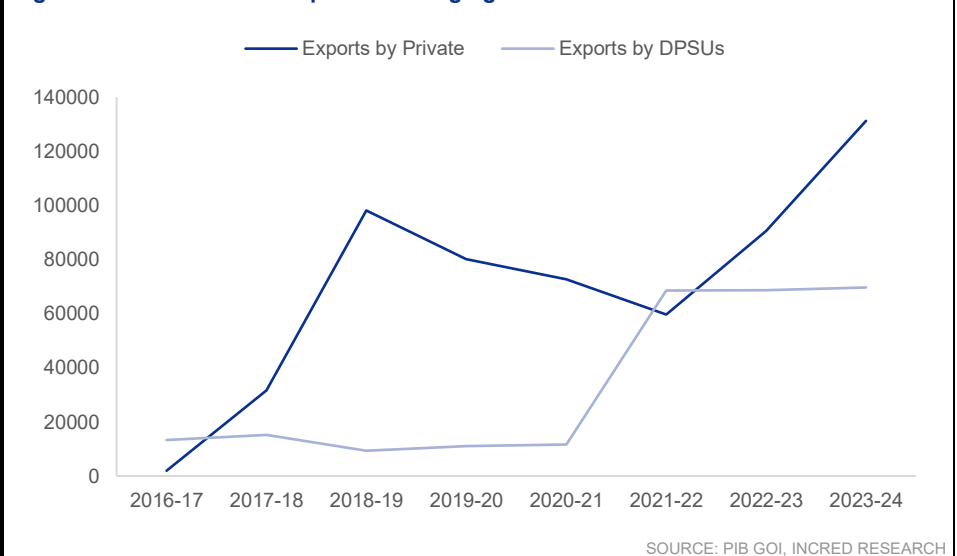
The restructuring of the Ordnance Factory Board into seven new defence public sector undertakings (DPSUs) in 2021 has been a game-changer, with these entities contributing approximately 80% of domestic defence production since 2016-17. Between 2021-22 and 2024-25, the ministry allocated Rs57,570m for modernization and Rs50,000m as an emergency authorization fund to these DPSUs, ensuring enhanced production capabilities for items like ammunition, vehicles, and weapons. **The private sector has also played a pivotal role, particularly in exports, with its share in defence exports rising from 13% in 2016-17 to 62% in 2023-24. Total defence exports have skyrocketed at an annual growth rate of 46%, reaching Rs210.83bn in 2023-24,** driven by items like missiles, radars, and armoured vehicles exported to over 85 countries.

**Figure 8: India's defence exports (Rs m)**

Year	Exports by Private	Exports by DPSUs	Total Exports	Share of Private	Share of DPSUs
2016-17	1,940	13,280	15,220	12.7%	87.3%
2017-18	31,630	15,190	46,820	67.6%	32.4%
2018-19	98,130	9,330	1,07,460	91.3%	8.7%
2019-20	80,080	11,080	91,160	87.8%	12.2%
2020-21	72,710	11,640	84,350	86.2%	13.8%
2021-22	59,650	68,500	1,28,150	46.5%	53.5%
2022-23	90,510	68,670	1,59,180	56.9%	43.1%
2023-24	1,31,190	69,640	2,00,830	65.3%	34.7%

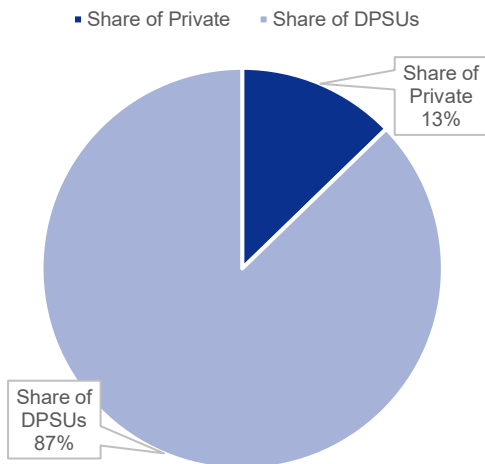
SOURCE: PIB GOI, INCRED RESEARCH

**Figure 9: India's defence exports are surging**



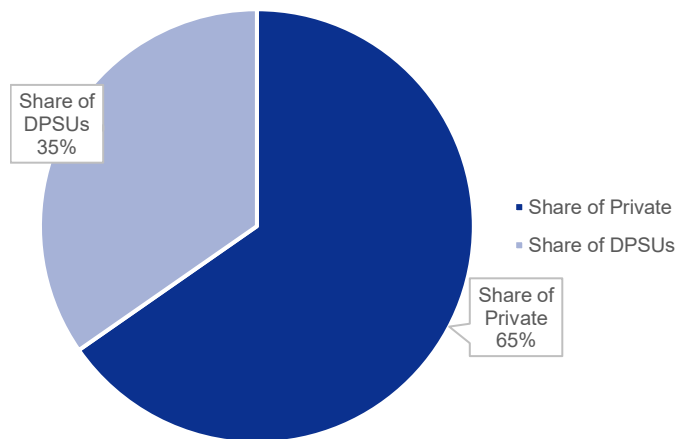
SOURCE: PIB GOI, INCRED RESEARCH

Figure 10: Private companies' share surged from 13% in 2016-17...



SOURCE: INCRED RESEARCH, GOI

Figure 11: ...to 65% in 2023-24

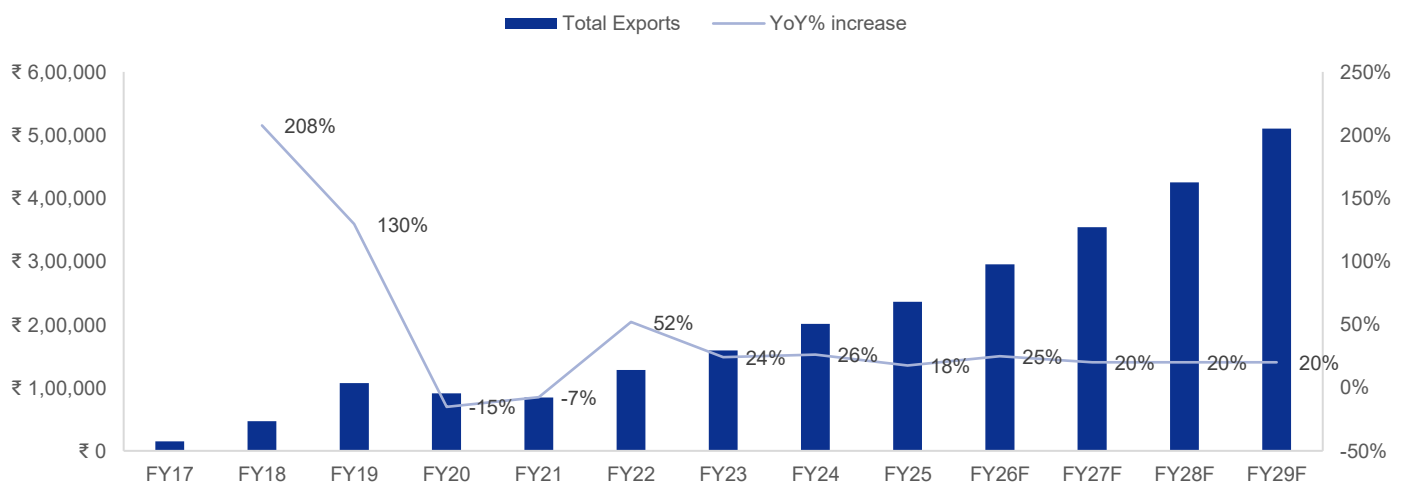


SOURCE: INCRED RESEARCH, GOI

### Ambitious targets signal a robust future ➤

India's defence sector is poised for exponential growth, with **the ministry aiming to achieve indigenous production of Rs3tr by 2028-29F**, requiring a 19% annual growth rate from 2023-24 levels. **Defence exports are targeted to reach Rs 5,00,000m by 2028-29F, building on the 32.5% increase in exports from 2022-23 to 2023-24.** Initiatives like the Technology Development Fund, sanctioning 78 projects worth Rs3,330m, and the Defence Research and Development Organisation or DRDO's support for industry through free patent access and technology transfers are fostering innovation. These efforts, combined with a 90% indigenization rate for army ammunition variants by Dec 2024, underscore India's trajectory towards self-reliance and global competitiveness in defence manufacturing, positioning the sector as a cornerstone of economic and strategic growth.

Figure 12: India's defence exports projected to reach 5,00,000m by FY28F



SOURCE: PIB GOI, INCRED RESEARCH

## Armenia-Azerbaijan conflict to further increase India's defence exports ➤

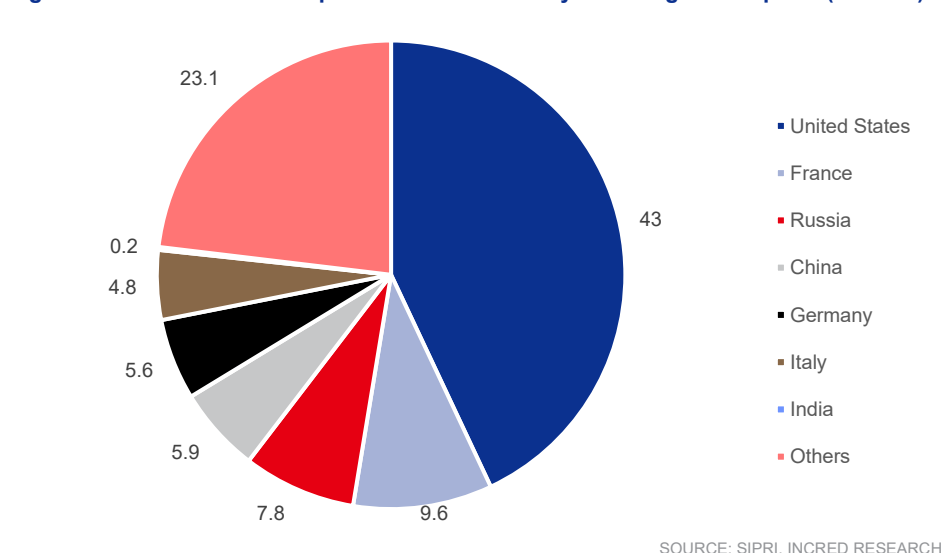
Since 2020, India has concluded several large defence contracts with Armenia. Notable deals include:

- **2020:** Sale of four DRDO-developed SWATHI weapon-locating radars (made by BEL) for about US\$40m.
- **2022:** a ~US\$245–250m deal supplying Pinaka multi-barrel rocket launchers with rockets, anti-tank weapons and ammunition. The first Pinaka batteries were delivered to Yerevan by late 2024.
- **2022:** Supply of 15 Akash-1S surface-to-air missile systems (~US\$720m).

Armenia is likely negotiating to buy 8–12 HAL-built Su-30MKI fighters (and upgrade its existing fleet), marking a potential first export of India's Su-30 jet. Together, these contracts gave India about 43% of Armenia's arms imports in 2022–24, putting Yerevan among New Delhi's largest defence clients.

## India's defence exports are still relatively very low but there is a lot of headroom for growth ➤

Figure 13: India's defence exports contribute to only 0.2% of global exports (2020-24)



India has a low presence in the global defence export market, contributing a mere 0.2% to global exports in 2020-24. Despite being the world's largest arms importer with a 9.8% share of global imports in 2019-23, India's export capabilities remain underdeveloped. **India exported to 41 states, with key recipients including the US, France, and Armenia, often involving niche equipment like radar systems, small arms, or support for co-production projects.** However, the global market is dominated by players like the US (43% share) and France (9.6%), indicating significant room for India to expand its export footprint. With initiatives like 'Make in India' and increasing domestic production, India has the potential to leverage its growing defence manufacturing base to capture a larger share of the global market in the coming years.

Figure 14: US, France and Armenia are the major importers of Indian defence equipment

Exporter	Share of global arms exports (%) 2020–24	1st Main Recipient	2nd Main Recipient	3rd Main Recipient
United States	43	Saudi Arabia	Ukraine	Japan
France	9.6	India	Qatar	Greece
Russia	7.8	India	China	Kazakhstan
China	5.9	Pakistan	Serbia	Thailand
Germany	5.6	Ukraine	Egypt	Israel
Italy	4.8	Qatar	Egypt	Kuwait
India	0.2	USA	France	Armenia
Others	23.1	NA	NA	NA

SOURCE: INCRED RESEARCH, SIPRI



## Indian defence industry to benefit from the European Union's €800bn rearmament plan >

The European Union's €800bn rearmament plan presents a significant opportunity for Indian defence companies such as Bharat Electronics and Hindustan Aeronautics to expand their global footprint.

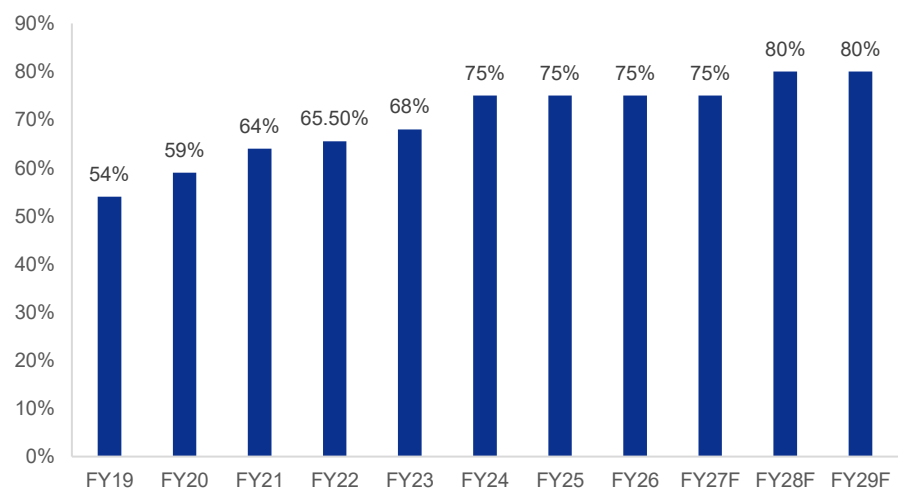
With Europe heavily reliant on defence imports—**78% of EU defence procurement since 2022 has gone outside the bloc, including 63% to the US**—Indian companies are well-positioned to supply components and sub-systems, leveraging their growing expertise in products like 155mm artillery guns, Akash air defence missiles, Pinaka rocket systems, BrahMos missiles, Dornier-228 aircraft, radars, and night vision equipment.

The EU's plan, which includes €650bn in increased defence spending by member nations over four years and €150bn in joint borrowing to bolster capabilities, particularly to support Ukraine, aligns with India's record defence exports of ₹210 bn in FY24 and the ambitious target of ₹300bn by FY26F. Europe's fragmented defence industry and lengthy project timelines create a window for Indian companies to capitalize on this demand, strengthening India's role as a key player in the global defence export market.

## India's defence imports decline as self-reliance increases >

India remains the world's second-largest arms importer, trailing only Ukraine, but a **9.3% decline in arms imports from 2015–2019 to 2020–2024 signals a transformative shift in its defence strategy**. Driven by persistent geopolitical tensions with China and Pakistan, India's robust military posture continues to necessitate significant arms acquisitions. However, the nation's growing emphasis on indigenous production under the 'Make in India' initiative, coupled with a deliberate diversification of suppliers, is reducing reliance on foreign arms. This strategic pivot, alongside projects like the Light Combat Aircraft Tejas and domestic missile systems, marks a maturing defence ecosystem, positioning India's defence sector for sustained growth and innovation.

**Figure 15: India's domestic procurement share has increased from 54% to 75% and we project it to further increase due to positive indigenization**



SOURCE: GOVT. OF INDIA, INCRED RESEARCH

The decline in India's arms imports reflects both external challenges and internal ambitions. Russia, historically India's dominant supplier, saw its share of India's arms imports drop to 36% in 2020–2024 from 55% in 2015–2019, the lowest in over six decades. This shift stems from global supply chain disruptions, Western sanctions impacting Russian production, and India's proactive diversification toward Western partners like France and the US for advanced technologies. Despite the reduced import volume, India remains the largest recipient of Russian arms, including S-400 air defence systems and T-90 tanks. With bureaucratic hurdles easing and indigenous capabilities expanding, India's defence sector is



poised for a bullish trajectory, balancing modernization with self-reliance to meet evolving security demands.

**Figure 16: India is the world's largest arms importer after Ukraine**

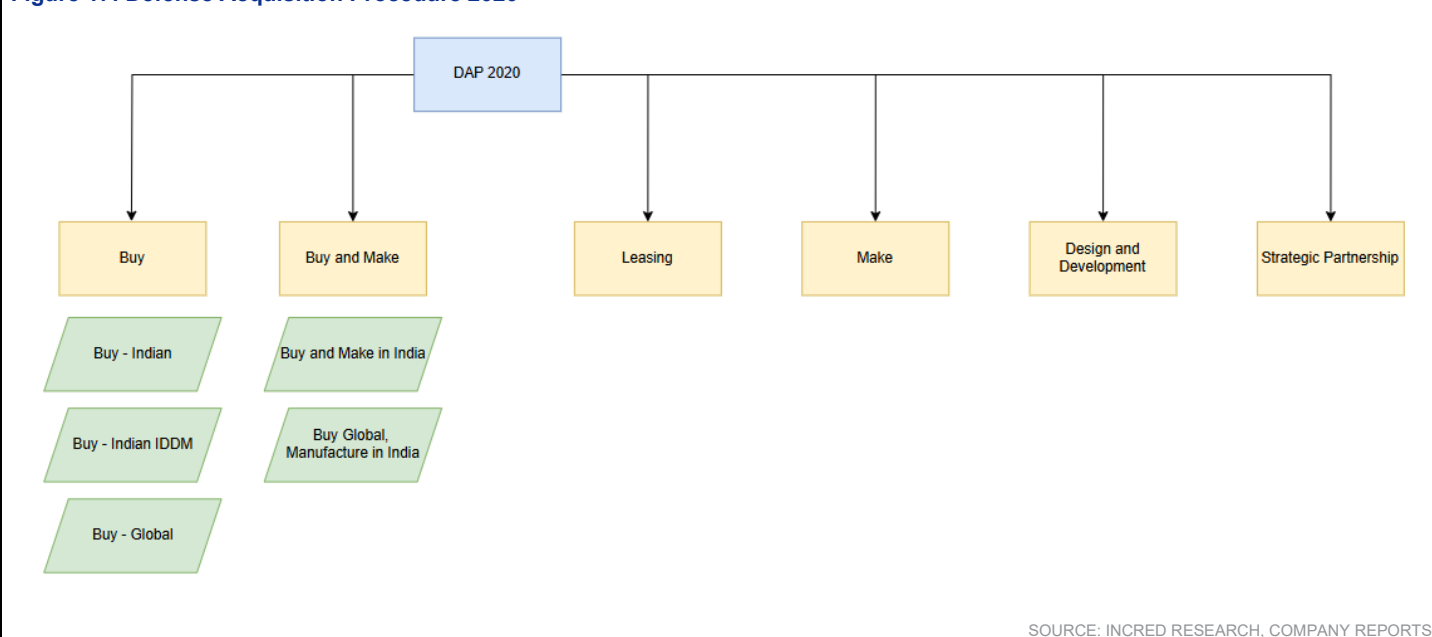
Rank	Importer	Share of global imports (%) 2020-24	1st Main supplier	2nd Main supplier	3rd Main supplier
1	Ukraine	8.8	USA	Germany	Poland
2	India	8.3	Russia	France	Israel
3	Qatar	6.8	USA	Italy	UK
4	Saudi Arabia	6.8	USA	Spain	France
5	Pakistan	4.6	China	Netherlands	Türkiye
6	Others	64.7	NA	NA	NA

SOURCE: PIB GOI, INCRED RESEARCH

### DAP is further boosting domestic defence production ➤

The Defense Acquisition Procedure 2020 is a pivotal policy designed to enhance India's self-reliance in defence manufacturing and streamline procurement processes, creating significant opportunities for Indian defence companies like Bharat Electronics and Hindustan Aeronautics.

**Figure 17: Defense Acquisition Procedure 2020**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Higher indigenous content mandates:** DAP 2020 increases indigenous content requirements to 50-60% across procurement categories, boosting demand for locally manufactured defence products and components.
- **Empowering MSMEs and startups:** Through initiatives like Innovations for Defence Excellence (iDEX), DAP 2020 fosters innovation by supporting micro, small, and medium enterprises (MSMEs) and startups, expanding the defence manufacturing ecosystem.
- **Streamlined processes for efficiency:** Simplified trial and testing procedures, coupled with a Project Management Unit, enable faster operations, allowing Indian companies to efficiently meet both domestic and international defence demands.

**Figure 18: Details and benefits**

Feature	Description	Impact on Indian Defense Companies
<b>Increased Indigenous Content</b>	Mandates 50-60% indigenous content for categories like Buy (Indian - IIDM) and Buy (Indian), up from 40% in DPP 2016.	Drives demand for locally produced components and systems, benefiting companies like Bharat Electronics and Hindustan Aeronautics.
<b>Support for MSMEs and Startups</b>	Includes Innovations for Defence Excellence (iDEX) to foster innovation among MSMEs and startups.	Expands opportunities for smaller firms like Paras Defence, encouraging innovation and market entry.
<b>Ease of Doing Business</b>	Streamlines trial and testing procedures and establishes a Project Management Unit for faster decision-making.	Enables quicker response to domestic and global opportunities, such as EU procurement needs.
<b>New Procurement Categories</b>	Introduces categories like Buy (global - manufacture in India) and leasing options (Indian and global).	Encourages local manufacturing by foreign vendors and provides flexibility for Indian companies to collaborate internationally.
<b>Revamped Offset Policy</b>	Vendors achieving 30% indigenous content in Buy (global) categories are exempt from offset obligations.	Reduces costs for Indian companies partnering with foreign companies, enhancing export potential.

SOURCES: INCRED RESEARCH, GOI

## Geopolitics and future spending ➤

India faces two regional rivals – China and Pakistan – which keeps defence planners on high alert. Along the India–China border (over a 3,500km disputed Line of Actual Control or LAC), there have been recurring standoffs and periodic skirmishes. After India's armed forces clashed with Chinese troops (24 Indian casualties in 2020), the government has steadily raised military spending (e.g. India's FY2023–24 budget of Rs5.94tr, 13% above previous outlays, was explicitly meant to add jets and border infrastructure vis-à-vis China).

Meanwhile on the India–Pakistan front, tensions remain high. In Apr 2025 militants attacked civilians in Indian Kashmir, triggering a four-day clash in early May. India launched 'Operation Sindoor' – missile strikes against terror camps in Pakistan-administered Kashmir – drawing heavy exchanges (fighter jets, artillery and drones) from both sides. In this context, India quickly approved emergency procurements to replenish combat stocks. The Defence Acquisition Council granted roughly Rs4,00,000m for urgent purchases of ammunition and high-priority gear.

These emergency funds fast-track critical items – surveillance and loitering drones, kamikaze UAVs, long-range missiles, air-defence systems, etc. – with delivery deadlines (often three-to-six months).

**Figure 19: Defence companies' comparison**

Company Name	Rating	Current MCap	Revenue	Gross Margin (%)	EBITDA Margin (%)	PE	EPS (FY25)	P/B	ROE	CMP	CMP (1yr ago)	Return on market price
Hindustan Aeronautics	<b>BUY</b>	Rs33,25,880	Rs3,09,810	60.37	33.39	40	Rs125.1	9.5	26.1	Rs4,973	Rs 5,171	-3.8%
Bharat Electronics	<b>BUY</b>	Rs29,84,220	Rs2,37,688	48.73	28.75	56	Rs7.3	14.9	29.3	Rs 408	Rs 305	33.9%
Solar Industries India	Not Rated	Rs15,37,970	Rs75,403	48.18	26.00	127	Rs 133.7	35.1	31.4	Rs 16,996	Rs10,037	69.3%
Mazagaon Dock Shipbuilders	Not Rated	Rs13,13,570	Rs1,14,319	50.29	18.02	54	Rs 59.8	16.5	34.0	Rs 3,256	Rs1,947	67.2%
Bharat Dynamics	Not Rated	Rs6,97,202	Rs33,231	49.51	22.83	127	Rs 15.0	19.2	17.9	Rs1,902	Rs1,530	24.3%
Cochin Shipyard	Not Rated	Rs5,73,306	Rs48,200	55.84	18.21	69	Rs 31.5	10.3	15.6	Rs 2,179	Rs 2,132	2.2%
Data Patterns (India)	Not Rated	Rs1,65,589	Rs7,084	61.02	38.80	75	Rs 39.6	12.3	14.5	₹Rs2,958	Rs 2,947	0.4%
Astra Microwave Products	Not Rated	Rs1,05,199	Rs10,512	45.08	25.59	69	Rs 16.2	9.6	14.9	Rs1,108	Rs 967	14.6%
Paras Defence & Space Tech.	Not Rated	Rs 66,654	Rs3,647	53.32	26.66	105	Rs 15.8	10.4	11.7	Rs1,654	Rs1,371	20.7%
MTAR Technologies	Not Rated	Rs52,805	Rs6,760	49.42	17.87	100	Rs 17.2	7.2	7.5	Rs1,717	Rs 1,890	-9.2%
Premier Explosives	Not Rated	Rs31,869	Rs 4,175	42.78	13.89	111	Rs 5.3	13	12	Rs 593	Rs 891	-33.49%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## India

**ADD** (Initiating coverage)

Consensus ratings\*: Buy 15 Hold 3 Sell 2

Current price: Rs4,973  
 Target price: Rs6,325  
 Previous target: NA  
 Up/downside: 27.2%  
 EIP Research / Consensus: 11.6%

Reuters: HIAE.NS  
 Bloomberg: HNAL IN  
 Market cap: US\$38,410m  
 Rs3,325,885m  
 Average daily turnover: US\$114.6m  
 Rs9918.9m  
 Current shares o/s: 668.8m  
 Free float: 28.4%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.5	30.2	(6.0)
Relative (%)	1.7	21.5	(11.9)

Major shareholders	% held
Promoters	71.6
LIC India	2.7
Public	11.6

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# Hindustan Aeronautics Ltd

## Growth engine with order book afterburner

- Order book surging to Rs1.89tr (+101% YoY) & additional Rs1tr in near-term pipeline underpins robust backlog and revenue visibility & a diversified book.
- Ambitious Rs150bn capex over five years fuels capacity expansion, reinforces revenue/margin accretion; EPS to grow +16% YoY FY26F & +18% YoY FY27F.
- Aging Jaguar/MiG-29/Mirage retirements+Su-57 induction + AMCA rollout to drive HAL OEM, MRO, seamless fleet transition underpins revenue visibility.

### Robust Rs1.89tr order book, with Rs1tr of orders in the pipeline

As of Apr 2025-end, Hindustan Aeronautics or HAL's order book has surged to an impressive Rs1.89tr, nearly doubling from Rs0.94tr a year ago. This substantial growth is attributed to significant contracts, including the supply of 156 Light Combat Helicopters worth Rs627.77bn, 240 AL-31FP engines for Su-30MKI aircraft, and 12 additional Su-30MKI fighters. Additionally, HAL secured repair and overhaul contracts totaling Rs175bn. Also, there are several large-scale contracts (like AMCA, deck-based fighters for Indian Navy, multi-role helicopters, etc.) which will be placed with HAL in the next two-to-three years, worth Rs1tr. This gives short-term and long-term confidence on revenue recognition.

### Indian Air Force's modernization to catalyze HAL's growth

The Indian Air Force or IAF's current fleet includes several aging aircraft types, such as the Jaguar DARIN I/II, MiG-29UPG, Jaguar DARIN-III, and Mirage-2000H, which are approaching the end of their operational life. These aircraft, inducted decades ago, face challenges related to airframe fatigue, outdated technology, and maintenance costs. The retirement plan is structured to align with the production and induction timelines of modern replacements, ensuring no gaps in operational capability. The phasing out of legacy aircraft, coupled with a shortfall in squadron strength, marks the urgent need for modernization. This positions HAL as a key beneficiary, given its central role in India's defence aviation sector.

### Capex plan to support upcoming manufacturing projects

HAL has outlined a Rs140bn–150bn capex plan over FY25–29F (averaging Rs30bn annually) to support its expanding order book and ensure timely deliveries. The investment focuses on ramping up production capacity, setting up new manufacturing lines, and upgrading key facilities—especially the Nashik unit, which will play a pivotal role in making the LCA Tejas, HTT-40, and various helicopters. Also, this provides strong visibility & confidence in revenue recognition, projected to grow by 15% in FY26F & by 21% in FY27F.

### Valuation to remain at a premium; initiate coverage with ADD rating

HAL's strong order book, coupled with ongoing indigenization and modernization initiatives, underpins a stable growth trajectory—EPS is forecast to rise by 16% YoY in FY26F and 18% YoY in FY27F. We initiate coverage on the stock with a target price of Rs6,325, based on a 40× P/E on Mar FY27F estimates. Downside risks: Dependency on foreign engine suppliers poses execution risk while slippage in flagship programs or failure to scale exports could defer growth.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	303,811	309,810	356,991	430,815	523,458
Operating EBITDA (Rsm)	97,411	96,081	111,406	130,136	147,652
Net Profit (Rsm)	76,210	76,950	89,518	105,499	121,385
Core EPS (Rs)	114.0	115.1	133.9	157.7	181.5
Core EPS Growth	30.8%	1.0%	16.3%	17.9%	15.1%
FD Core P/E (x)	43.64	43.22	37.15	31.53	27.40
DPS (Rs)	29.5	38.0	44.2	52.1	59.9
Dividend Yield	0.59%	0.76%	0.89%	1.05%	1.21%
EV/EBITDA (x)	31.43	30.64	25.84	21.43	18.15
P/FCFE (x)	187.69	155.39	31.95	(109.02)	(87.47)
Net Gearing	(90.7%)	(109.2%)	(109.2%)	(111.7%)	(114.9%)
P/BV (x)	11.41	9.51	8.12	6.92	5.92
ROE	28.9%	24.0%	23.6%	23.7%	23.3%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

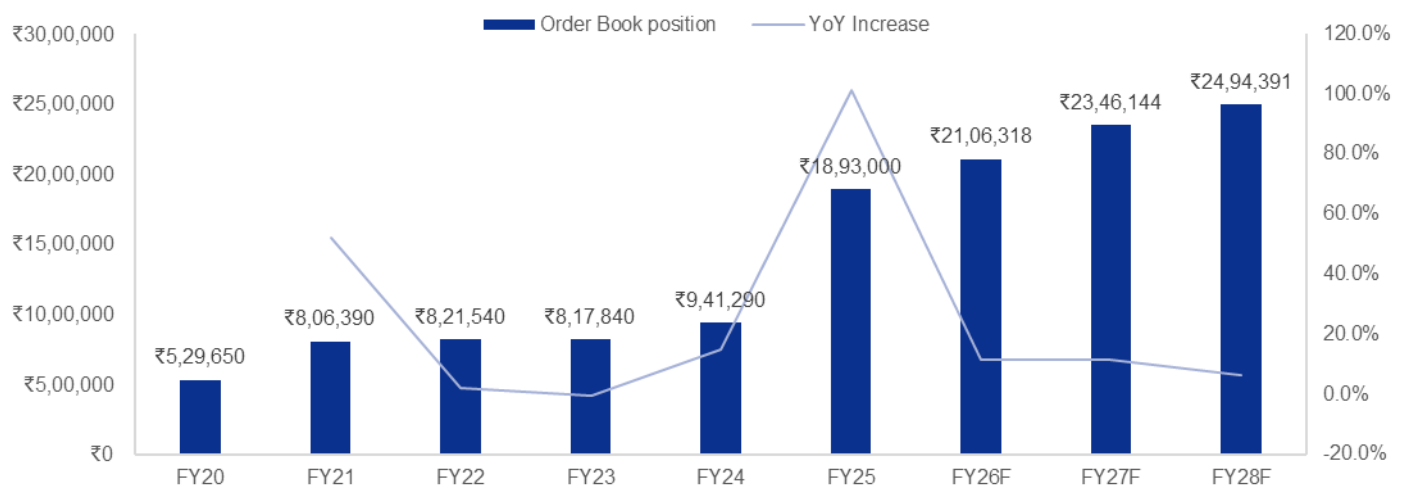
SOURCES: INCRED RESEARCH, COMPANY REPORTS

## Robust Rs1.89tr order book with 101% YoY growth gives long-term revenue visibility

Hindustan Aeronautics (HAL) has witnessed a remarkable expansion in its order book. As of Apr 2025-end, HAL's order book surged to an impressive Rs1.89tr, nearly doubling from Rs0.9tr a year ago. This substantial growth is attributed to significant contracts, including the supply of 156 Light Combat Helicopters 'Prachand' worth Rs6.27m, 240 AL-31FP engines for Su-30MKI aircraft, and 12 additional Su-30MKI fighters. Additionally, HAL secured repair and overhaul contracts totaling Rs1.75bn.

The company anticipates further orders in the near term, including 97 LCA Tejas Mk1A fighters, 143 Advanced Light Helicopters for the Indian Air Force and Indian Army, and 10 Dornier aircraft for the Indian Navy and Coast Guard.

**Figure 20: Robust order book growth expected to continue**



SOURCE: MINISTRY OF DEFENSE, INCRED RESEARCH

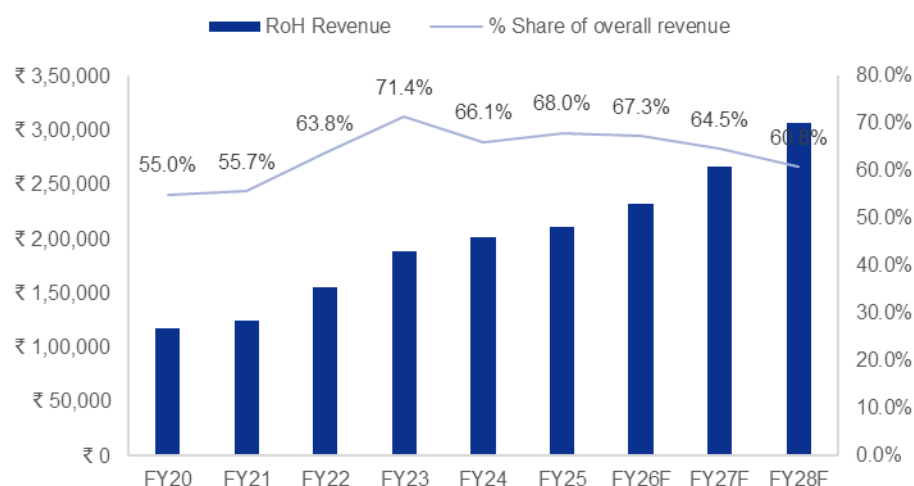
## Stable and long-term growth in the MRO segment

HAL's ROH segment is a critical component of its business model, providing consistent revenue due to its position as the preferred supplier for India's defence services. Most of the defence fleet comprises HAL-manufactured aircraft, such as the LCA Tejas, Advanced Light Helicopter, and Su-30 MKI etc, ensuring a steady demand for ROH services.

Over the period FY16 to FY24, HAL's ROH revenue demonstrated robust growth, achieving a compounded annual growth rate of 17%. In FY22 and FY23, ROH revenue was particularly vital in compensating for reduced manufacturing orders due to a depleted order book.

In FY24-25, HAL secured ROH contracts worth Rs1.75bn, contributing to a total order book of Rs1.84tr. This significant order inflow underscores the continued importance of ROH to HAL's financial stability. HAL's management has provided a stable growth guidance of 8-9% for the ROH segment, reflecting confidence in sustained demand. This growth is expected to accelerate as the manufacturing segment ramps up, driven by delivery schedules for aircraft like the LCA Tejas Mk1A, Light Utility Helicopter, and ALH.

**Figure 21: ROH segment provides healthy revenue outlook**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## HAL is strategically expanding its MRO capabilities ➤

HAL is strategically expanding its MRO capabilities to capture a larger share of this growing market. Key developments include:

- **Partnership with Airbus:** In Nov 2023, HAL partnered with Airbus to enter the commercial aircraft MRO market, focusing on servicing A320 aircraft. This collaboration includes consultancy, tool supply, and personnel training to meet European Union Aviation Safety Agency and Directorate General of Civil Aviation (DGCA) standards.
- **Civil MRO services:** In Mar 2025, HAL's Nashik facility completed its first civilian aircraft overhaul, an A320neo for IndiGo, followed by two Embraer aircraft (E-175 and E-145) in May 2025. This marks HAL's entry into the civil MRO market, leveraging its proximity to major airports like Mumbai to offer cost-effective services, with a 20% faster turnaround time compared to overseas facilities.
- **Defence MRO enhancements:** In Feb 2025, HAL and Collins Aerospace agreed to establish an MRO facility in Lucknow for LCA Tejas Mk-1 fighter jets, focusing on electrical power generation systems. Additionally, HAL is supporting MRO for MQ-9B drone engines in collaboration with General Atomics.

## IAF modernization to catalyze HAL's growth

The Indian Air Force (IAF) faces a critical juncture, driven by the retirement of its aging fleet and escalating geopolitical tensions. The phasing out of legacy aircraft, coupled with a shortfall in squadron strength, marks the urgent need for modernization. This dynamic positions Hindustan Aeronautics or HAL as a key beneficiary, given its central role in India's defence aviation sector.

### Phased retirement of IAF fleet ➤

The IAF's current fleet includes several aging aircraft types, such as the Jaguar DARIN I/II, MiG-29UPG, Jaguar DARIN-III, and Mirage-2000H, which are approaching the end of their operational life. These aircraft, inducted decades ago, face challenges related to airframe fatigue, outdated technology, and maintenance costs. The retirement plan is structured to align with the production and induction timelines of modern replacements, ensuring no gaps in operational capability.

- **Jaguar DARIN I and II:** The IAF operates six squadrons of Jaguar strike fighters, totaling approximately 120 aircraft, stationed at Ambala, Jamnagar, and Gorakhpur. The older DARIN I and II variants, inducted from 1979, lack modern upgrades and are nearing the end of their service life. Retirement of

these ~60 aircraft is planned to begin around 2030, coinciding with the production start of the Tejas MK2.

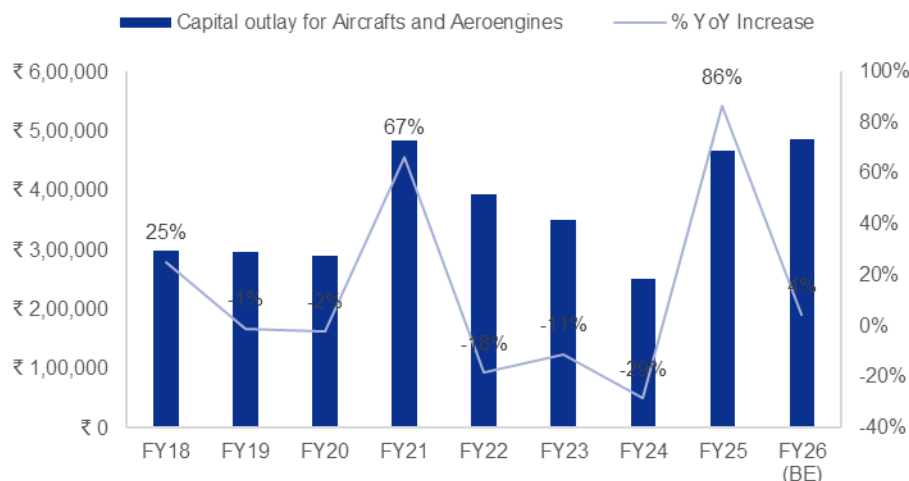
- **MiG-29UPG:** The IAF's three squadrons of MiG-29UPG, comprising ~50-60 aircraft, were originally inducted in the mid-1980s and upgraded in 2009 with modern avionics and radar. These air superiority fighters are scheduled for retirement starting around 2033, with full phase-out by 2036-37, as their airframes reach ~50 years of age.
- **Jaguar DARIN-III and Mirage-2000H:** The upgraded Jaguar DARIN-III (~60 aircraft) and Mirage-2000H (~47 aircraft) are the most capable of the legacy fleet, with modern avionics, radar, and weaponry. Their retirement is planned post-2035, extending into the late 2030s, due to their enhanced capabilities and extended airframe lives.

**Figure 22: Phasing out jets**

Aircraft Type	Squadrons (Approx. Aircraft)	Induction Year	Retirement Timeline
Jaguar DARIN I/II	3 (60)	1979	2030
MiG-29UPG	3 (50-60)	Mid-1980s	2033-2037
Jaguar DARIN-III	3 (60)	1979 (upgraded 2013)	Post-2035
Mirage-2000H	3 (47)	1985 (upgraded 2011)	Late 2030s

SOURCE: INCRED RESEARCH

**Figure 23: Capital outlay for aircraft and aeroengines is rising again**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Pakistan, being a pawn of China, is complicating geopolitics ►

India's defence strategy is heavily influenced by its regional security environment, particularly the growing military capabilities of China and Pakistan. **The IAF currently operates 31 fighter squadrons, significantly below the sanctioned strength of 42**, necessitating urgent modernization to counter China's expanding air force, which includes over 190 J-20 fifth-generation fighters and the upcoming J-35. Pakistan plans to acquire 40 J-35A stealth fighters from China, with deliveries expected within two years, potentially altering the regional air power balance. This development will compel India to accelerate its procurement of fifth-generation aircraft to maintain air superiority.

Russian state arms exporter Rosoboronexport has offered to co-produce the Su-57E with HAL, with full technology transfer to support India's 'Make in India' and 'Atmanirbhar Bharat' initiatives. This offer leverages HAL's existing infrastructure for the Su-30MKI, enabling rapid integration and production. Political support for the Su-57 may stem from India's long-standing defence ties with Russia, which has historically supplied most of its military hardware, and the economic benefits of local manufacturing.



**Figure 24: India is likely to buy Russian Sukhoi Su-57E**



SOURCE: INCRED RESEARCH

### **China's J-35A sales to Pakistan ►**

Pakistan plans to acquire 40 J-35A stealth fighters from China, with deliveries expected by 2027F, posing a significant challenge to India's air superiority. The J-35A, China's second fifth-generation fighter, would modernize the Pakistan Air Force, replacing its ageing F-16s and Mirage jets. This development will prompt India to expedite its procurement of fifth-generation fighters, with the Su-57 being a likely choice due to its co-production benefits for HAL.

**Figure 25: China's J-35A sales to Pakistan**



SOURCE: INCRED RESEARCH

### **The AMCA project is India's long-term solution ►**

India's indigenous AMCA project is a cornerstone of its defence strategy, aiming to deliver a 5.5-generation stealth fighter by 2035F. The project has made significant progress:

- **Design Completion:** The design phase was completed in 2023, with the Critical Design Review cleared by the IAF.

- **Prototype Timeline:** The first prototype is expected by 2026-27F, with the maiden flight in 2028F.
- **Funding and Partnerships:** The Cabinet Committee on Security approved Rs150bn (US\$1.8bn) for prototype development in Mar 2024, with HAL and private sector partners involved.

**Figure 26: AMCA is India's long-term solution**



SOURCE: INCRED RESEARCH

## Indigenization progress across key platforms to improve margin and self-reliance

HAL has markedly raised the domestic content of its major platforms. For the LCA-Tejas Mk 1, indigenous content by value is now around 60% (up from ~25% in early 2010s), and HAL aims to push Mk 1A above 65–70%. The pending order of 97 Mk 1A fighters explicitly targets “over 65%” domestic content.

Similarly, Su-30MKI fighters (assembled from Russian kits) now incorporate ~62.6% domestic parts by value; engines overhauled at HAL’s Koraput plant will reach ~63% indigenization by the programme-end.

In rotary-wing platforms, HAL’s Dhruv/Rudra helicopters now exceed ~60% indigenous content (by value) after >300 airframes, and the LCH ‘Prachand’ gunship series prototype (LSP) was built with ~45% local content, slated to exceed 55% in series production.

The new Light Utility Helicopter – designed to replace HAL’s aging Cheetak/Cheetah fleet – is planned at >60% indigenous content. Even legacy transports see higher indigenization: HAL’s Kanpur-built Dornier Do-228 (now ‘Hindustan 228’) had about 61% local content as far back as 2006, and efforts continue to raise this.

In short, every HAL platform – fighters, helicopters and transports – is steadily gaining more ‘Make in India’ content, with explicit targets of 60–90% on next-generation models.

## Strategic shifts & partnerships to move up in the value chain➤

HAL is shifting from licence-assembly to home-grown design and high-tech JV activity. Beyond merely manufacturing, HAL spearheaded the LCA-Tejas programme (with DRDO/ADA) and the entirely indigenous LCH attack helicopter (evolved from Dhruv/Rudra).

It is now undertaking the IMRH medium-lift helicopter (13-t class) for the army and navy; HAL has sanctioned ~Rs40bn for IMRH development and is co-developing a new ‘Aravalli’ turboshaft engine via its SAFHAL joint venture with Safran.

On engines, HAL has long built and overhauled foreign designs (MiG and SU-30 engines at Koraput) and is now negotiating local production of GE’s F414 turbofan (INS-6 variant) for the future Tejas Mk 2.

The Memorandum of Understanding or MoU (Jun 2023) and the recent Negotiation Committee aim for up to 80% technology transfer on the F414 – an

unprecedented depth of know-how sharing. In helicopters, HAL's decades-long Safran partnership (on Shakti helicopter engines) has matured into SAFHAL (HAL+Safran JV), co-developing engines for new Indian helicopters. These moves — developing homegrown LCA/helos and co-developing engines — complement government initiatives ('Make in India', 'Aatmanirbhar Bharat') that actively favour domestic sourcing. For example, HAL's recent Su-30MKI/engine deals were explicitly cited as a boost to the Atmanirbhar agenda.

## **GE engine supplychain bottleneck is now resolved**

HAL has overcome a critical bottleneck in the Tejas Light Combat Aircraft Mk1A program with GE Aerospace's commitment to resume and scale up deliveries of the F404-IN20 engine.

After a 14-month delay due to production line closure and global supply chain disruption, GE delivered the first engine (out of 99 ordered) on 25 Mar 2025 and plans to supply 11 more by the end of 2025F, totaling 12 for the year. GE has further assured HAL of increasing the production to 24 engines per year by 2027F, aligning with HAL's goal to produce 24-30 jets annually. This development ensures smooth aircraft deliveries to the Indian Air Force, significantly enhancing HAL's revenue visibility with a Rs480bn order for 83 jets and a potential Rs670bn order for 97 additional jets.

The delay stemmed from a five-year dormancy in GE's production line (2016-2021) and global supply chain challenges, including difficulties in re-certifying vendors and procuring critical components like titanium. GE's delivery of the first engine on 25 Mar 2025, marked a turning point. GE's commitment to deliver 11 additional engines by the end of 2025F, totaling 12 for the year, and to scale production to 24 engines annually by 2027F, addresses the bottleneck effectively.

Each Tejas Mk1A unit is estimated to fetch ~Rs2,500m, with FY25's 12-unit delivery expected to generate around Rs30,000m in revenue. With scale, backward integration, and improving indigenous content (targeted to exceed 65% during the 180-aircraft programme), margin should benefit from better operating leverage and reduced import dependency.

HAL has resolved prior supply chain challenges with General Electric or GE, which supplies F404 engines. One engine was delivered in Apr 2025, and 11 more are expected by the year-end, supporting the 12 planned deliveries. The resolution of these bottlenecks suggests smoother execution in the coming years, improving revenue recognition predictability.

## **Revenue visibility and financial impact ➤**

The resolution of engine supply issues significantly enhances HAL's revenue visibility. The IAF's order for 83 Tejas Mk1A jets, valued at Rs480bn, signed in Feb 2021, forms a substantial part of HAL's order book. An additional order for 97 jets, estimated at Rs670bn, is under consideration, bringing the total potential order to 180 aircraft. With a production rate of 24-30 jets per year, HAL can recognize revenue steadily over the next four-to-five years. The Tejas program alone will generate over Rs1tr, bolstering HAL's financial stability and supporting investments in other programs like the Tejas Mk2 and Advanced Medium Combat Aircraft.



**Figure 27: GE engine supply bottleneck is now resolved**



SOURCE: GE, INCRED RESEARCH

## **The Super Sukhoi upgrade program will materialize after five years**

HAL is set to embark on one of its most ambitious upgrade programmes — the extensive modernization of 84 Su-30MKI fighter jets under what is being called the ‘Super Sukhoi’ programme. As revealed in the company’s recent earnings call, this project involves a full overhaul of the aircraft’s avionics suite, ranging from the radar system and mission computers to displays and electronic warfare capabilities. This is not a routine mid-life upgrade, but a deep redesign that significantly enhances combat potential, survivability, and interoperability, aligning the Su-30MKI fleet with 4.5+ generation standards.

The upgrade is currently in the final stages of obtaining government approval, with HAL expecting design and development to begin in the next six months. Initial operational clearance is targeted within five years, with full fleet modification orders likely to commence thereafter. The total programme value is estimated at a substantial Rs600bn, with execution revenue expected to start flowing from the sixth year onwards.

From a financial perspective, this programme is a multi-year growth driver with high-margin retrofit work. Given HAL’s track record in platform lifecycle management and the fact that it already manufactures and overhauls the AL-31FP engines and key components of the Su-30MKI at its Nashik and Koraput facilities, HAL stands to capture a large share of the value chain. Importantly, the upgrade will include greater indigenization of key sub-systems, further strengthening HAL’s position as a vertically integrated defence OEM.

Strategically, the Super Sukhoi upgrade aligns well with India’s push for self-reliance in defence. The programme is expected to include advanced indigenous systems developed by DRDO labs such as the Uttam AESA radar and newer electronic warfare suites. HAL’s involvement in this programme not only deepens its engineering capabilities in avionics integration and systems re-design, but also ensures sustained revenue visibility over the medium- to long-term.

**Figure 28: The Super Sukhoi upgrade program will materialize after five years**



SOURCE: INCRED RESEARCH

## **AL-31FP engine order reinforces HAL's strategic position**

HAL's contract to manufacture 240 units of AL-31FP engines — the mainstay power plant for the Su-30MKI fleet — marks a critical step forward in India's defence manufacturing self-reliance. Delivered at a steady rate of ~30 engines per year, this eight-year programme is not just a sizeable order pipeline but also an enabler for deepening HAL's indigenous manufacturing base in high-complexity engine systems.

Currently, the AL-31FP engine enjoys indigenous content of approximately 57%. HAL, in collaboration with MIDHANI and other partners, is actively working to increase this further through substitution of raw materials and components sourced domestically. This initiative directly supports the government's indigenization goals under the Atmanirbhar Bharat framework and Positive Indigenization Lists.

A notable development is HAL's growing collaboration with private-sector partners such as PTC Industries, which specializes in titanium casting — a critical input for aerospace engines. The company has recently commissioned a new manufacturing facility, and HAL sees this as a strategic enabler to secure and de-risk its engine component supply chain. With PTC now contributing to engine parts manufacturing, HAL's ecosystem is broadening to include capable Indian MSMEs and private players, which augments cost efficiency and improves localization level.

From a financial standpoint, the AL-31FP engine programme ensures multi-year revenue visibility while also improving margin gradually. Engine manufacturing and overhaul are typically higher-margin segments, compared to basic airframe assembly, due to their technical complexity and limited competition. Over time, as indigenization deepens, HAL is likely to benefit from improved cost structure, greater intellectual property or IP ownership, and reduced forex volatility, which will structurally uplift the EBITDA margin.

**Figure 29: AL-31 engine**



SOURCE: INCRED RESEARCH

### **LCA Mk2 is taking shape and is targeting entry by 2030F ➤**

LCA Mk2, the medium-weight evolution of the Tejas, has progressed to the manufacturing prototype stage, with its first flight expected in 1QFY26F. The initial prototypes will use F414 engines, which HAL has already received. Discussions with GE are ongoing for deeper technology transfer and pricing. The deal is expected to be finalized in FY26F, enabling India to localize a significant portion of the power plant—a critical milestone in defence indigenization.

The Mk2 certification is expected to take three years post first flight, targeting completion by FY30F. Production is likely to begin around FY31, potentially under concurrent certification-production overlap. As the Tejas Mk1A moves into full-rate production and the Mk2 becomes viable for induction, HAL will transition from assembling aircraft to becoming a vertically integrated, full-cycle combat aircraft OEM.

- **Execution confidence:** A multi-tier manufacturing structure, improved engine deliveries, and growing private participation de-risk HAL's production capability and allow for scaling up output predictably.
- **Profitability support:** With ASPs of ~Rs2,500m and potential margin improvement via indigenization, the LCA Mk1A programme offers healthy revenue and profitability tailwinds.
- **Export optionality:** Countries such as Argentina, Egypt, and Malaysia have shown interest in the LCA Mk1A. A successful export deal would create a meaningful upside to baseline projections and improve economies of scale.
- **Technology sovereignty:** The Mk2 and associated engine deals position HAL to control a larger share of core fighter tech in-house, reducing strategic dependency and boosting long-term capability.



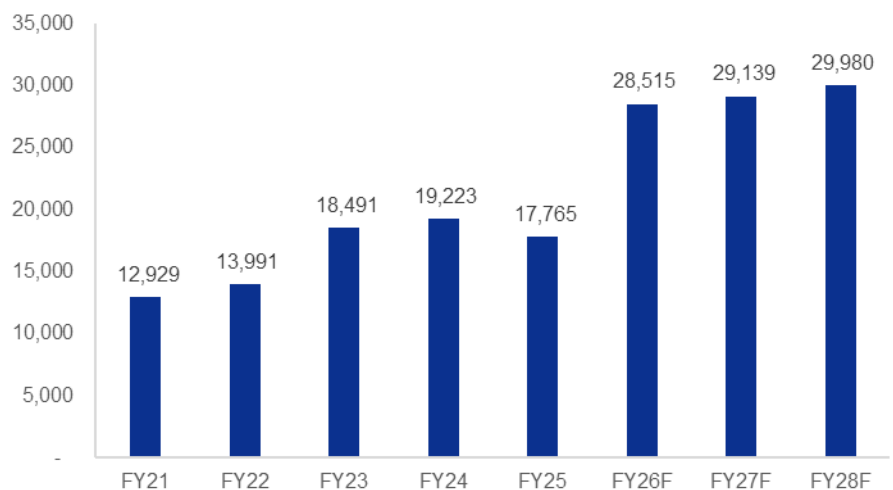
## Financial outlook

### Capex to grow by ~30bn per year to execute upcoming projects ➤

To meet growing demand and ensure timely delivery of its expanding order book, HAL has outlined a capital expenditure plan of Rs140–150bn over the next five years (FY25–FY29F), averaging around Rs30bn annually. This investment is directed towards augmenting production capacity, establishing new manufacturing lines, and upgrading existing facilities. Notably, the Nashik factory in Maharashtra is poised to play a crucial role in scaling up production, particularly for indigenous platforms like the LCA Tejas, HTT-40 trainer aircraft, and various helicopters.

HAL is also focusing on enhancing its technological capabilities by investing in advanced manufacturing equipment, such as a 20,000t isothermal press and a 50,000t hydraulic press, to support the production of engine and aerostructure components. Furthermore, the company is exploring the monetization of non-core assets, including a five-acre land parcel in Delhi, to partially fund its capital expenditure initiative.

**Figure 30: Capex to see a rise in the next five years, totaling ~Rs150bn, to support the execution of its large order book and anticipated large orders**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

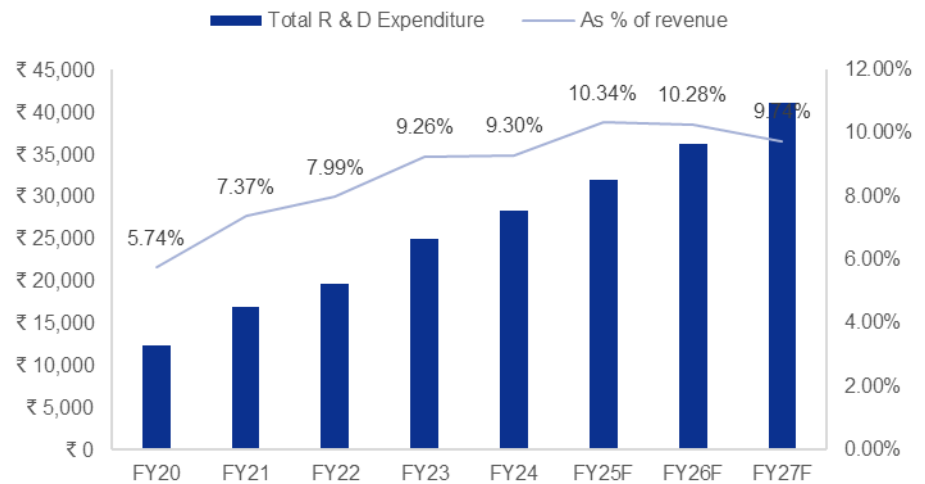
### R&D to power future growth amid robust order pipeline ➤

HAL is intensifying its focus on research and development (R&D) to capitalize on its substantial order book and an upcoming order pipeline of Rs1tr. With a strategic push to enhance innovation, HAL has significantly ramped up its R&D investments from FY18 to FY23. In FY24, the company allocated 9.30% of its revenue to R&D, up from 5.74% in FY20, marking its commitment to technological advancement.

This increased investment has driven a remarkable rise in intellectual property rights (IPRs), growing from 108 in FY18 to 1,026 in FY24, positioning HAL as a leader in aerospace innovation.

HAL's R&D strategy is supported by its network of 10 dedicated R&D centres and strategic collaborations with premier institutions like DRDO, IITs, and IISc, as well as partnerships with global original equipment manufacturers for technology transfers and joint product development. We project sustained growth in R&D expenditure from FY26 to FY28, expected to reach Rs41bn by FY28F, maintaining an average of around 10% of revenue. This investment is poised to strengthen HAL's capabilities in developing cutting-edge aerospace technologies, ensuring it meets the demand of its expansive order pipeline while fostering self-reliance and global competitiveness in defence and aerospace sectors.

**Figure 31: HAL will keep the R&D expenditure growing to support its patent growth, innovation and indigenization**



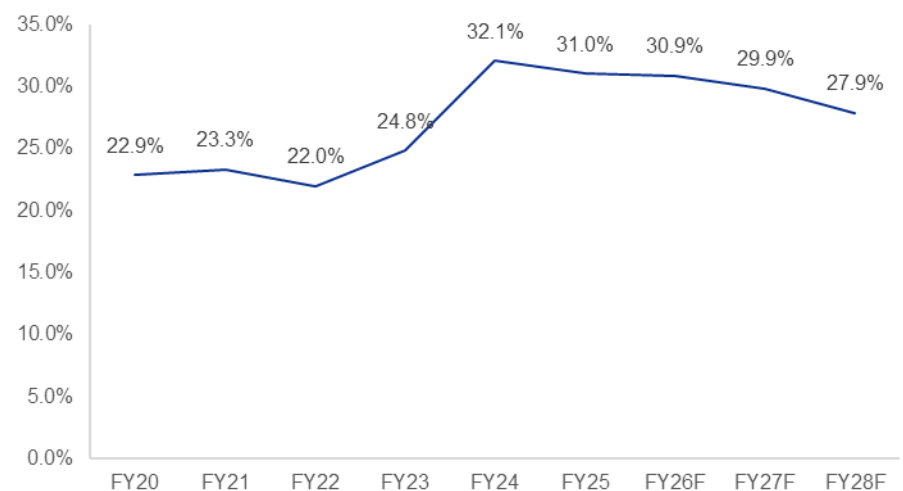
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**EBITDA margin grew from 22.9% (FY22) to 31% (FY24) and is expected to shrink as the share of product manufacturing will increase ➤**

HAL has demonstrated robust growth in its EBITDA margin over recent years, driven by a rising share of high-margin repair and overhaul (R&O) services in its revenue mix. From FY20 to FY24, HAL's EBITDA margin improved significantly from 22.9% to 32.1%, reflecting enhanced operational efficiency and a strategic focus on the lucrative R&O segment. This upward trajectory marks HAL's ability to optimize its cost structure while capitalizing on its strong order book worth Rs1.8tr and an upcoming order pipeline of Rs1tr, bolstering profitability in a competitive aerospace market.

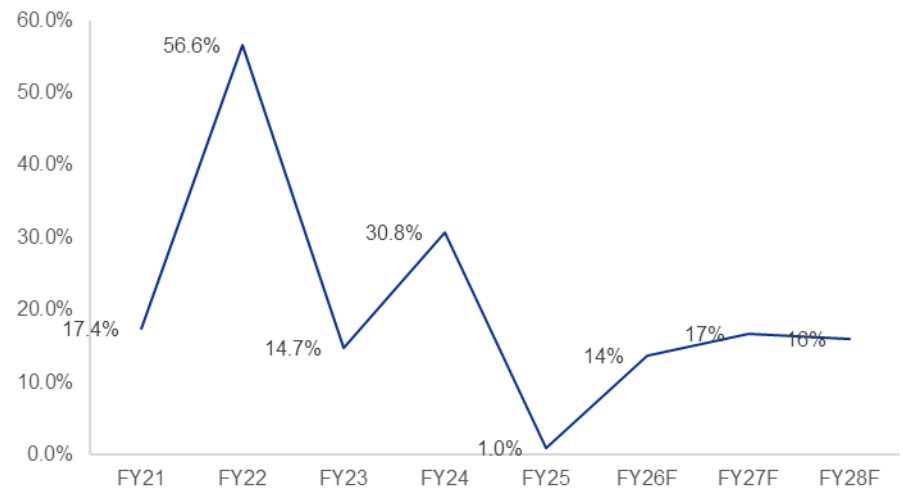
Going ahead, HAL's EBITDA margin is projected to remain strong at 31.0% in FY26F, supported by continued demand for R&O services. However, margins are expected to face a slight compression in subsequent years, reaching 29.9% in FY27F and 27.9% in FY28F, as the company shifts toward a higher proportion of product manufacturing. This transition will potentially reduce the margin due to the capital-intensive nature of manufacturing.

**Figure 32: EBITDA margin to compress in the coming years as the manufacturing share increases**



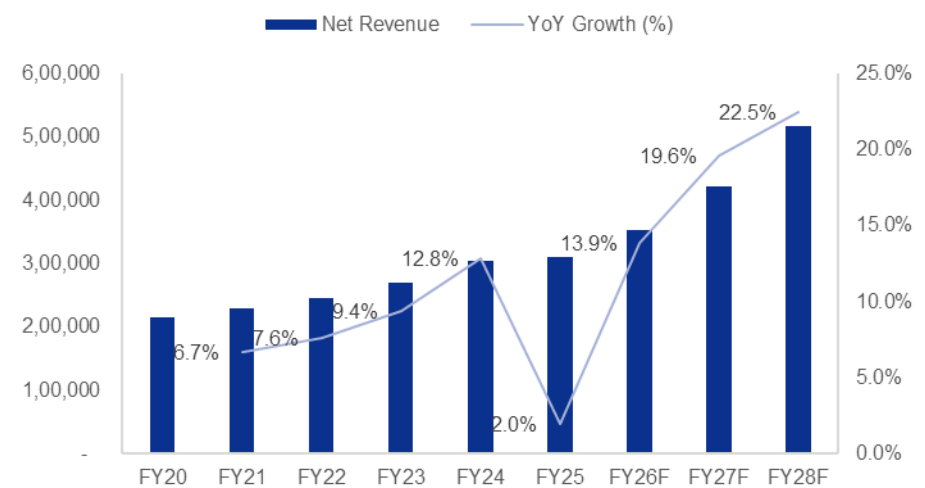
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 33: PAT to rise further by 14% in FY26F and improve further as the overall revenue will rise due to increased product manufacturing**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 34: Revenue to increase further in FY26F-FY28F; growth slowdown in FY25 was due to revenue recognition in FY24 and challenges with GE engine delivery**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

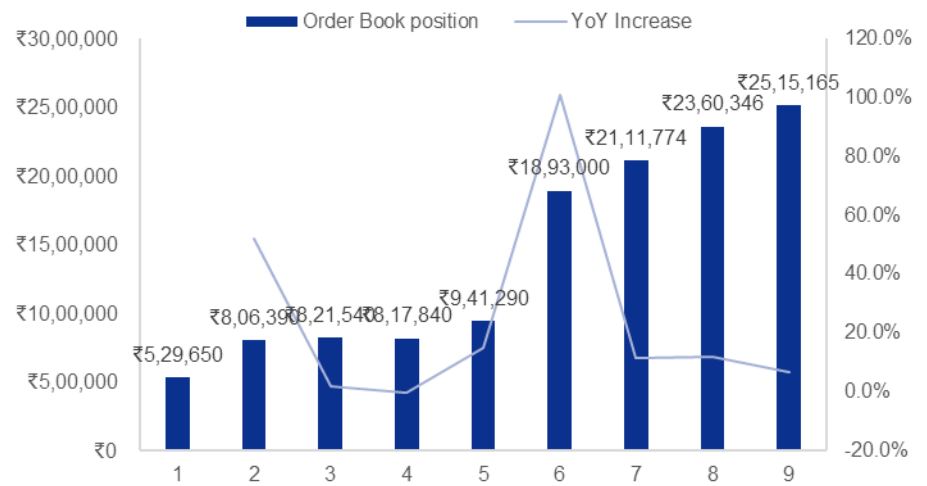
### **Strong and expanding order book position; we project FY28F order book at Rs2.5tr ➤**

HAL has witnessed a robust and consistent upward trajectory in recent years, growing from Rs0.5tr to Rs1.8tr. We project this growth to continue, with the order book expected to touch Rs2.5tr by FY28F, underpinned by a healthy order pipeline and strong demand visibility.

Currently, the company has over Rs1,000bn worth of orders in the pipeline, which are likely to convert into firm contracts over the next few quarters. Notable anticipated orders include:

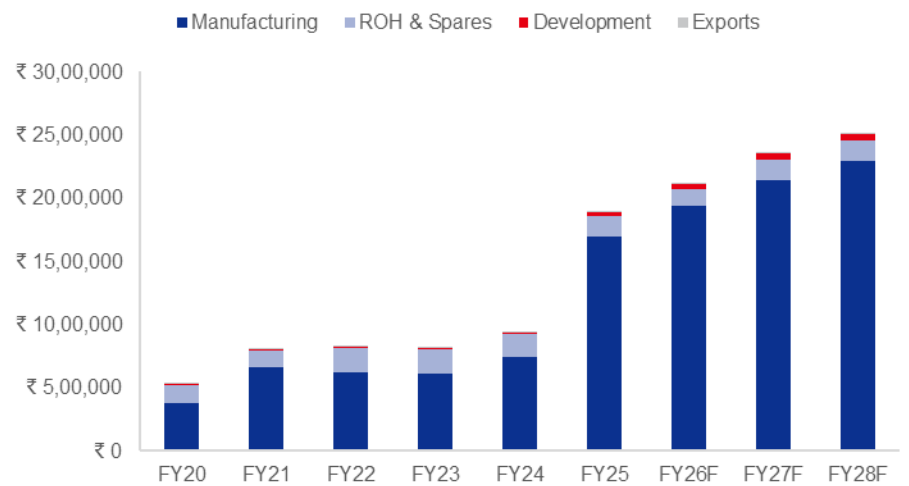
- 97 LCA Tejas Mk1A fighters for the Indian Air Force.
- 143 Advanced Light Helicopters (ALH) for the Indian Air Force and Army.
- 10 Dornier aircraft for the Indian Navy and Coast Guard.

**Figure 35: Order book on a steady growth trend**



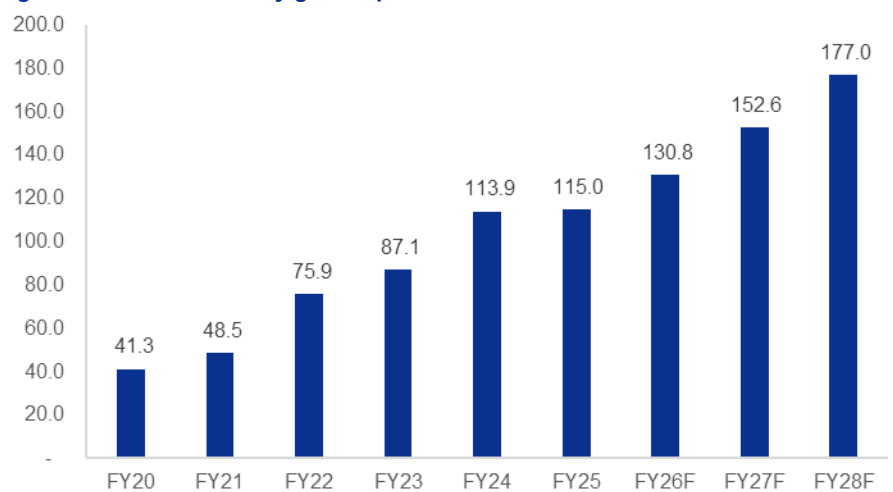
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 36: Manufacturing to bolster the overall order book**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 37: EPS on a steady growth path**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Valuation to remain at a premium ►

HAL's strong order book, coupled with ongoing indigenization and modernization initiatives, underpins a stable growth trajectory—EPS is forecast to rise by 16% YoY in FY26F and 18% YoY in FY27F. We initiate coverage on the stock with a target price of Rs6,325, based on a 40× P/E on Mar FY27F estimates, which is +1SD of the last three years' mean forward P/E.

**Figure 38: Valuation to remain at a premium**



## Key risks and challenges

### Engine supply and foreign dependency ►

HAL's reliance on imported engines and critical components poses a material execution risk. For example, delays in GE F404 engine deliveries have directly slowed LCA Tejas Mk-1A production.

While HAL reports that GE has now committed to accelerate engine output, the company remains exposed: any further supply-chain disruption (pandemic-related shutdowns or certification holds) could again defer aircraft completion and revenue recognition. Likewise, unexpected events – such as the Jan 2025 ALH crash that grounded its fleet – have disrupted delivery schedules. HAL managed to maintain its top line by accelerating other work in FY25, but these incidents highlight how external shocks (foreign supplier delays or accidents) beyond HAL's control can hamper its production timelines and sales.

### Production and delivery delay ►

Meeting ambitious delivery schedules for flagship programs remains a challenge. HAL agreed in 2021 to deliver 83 Tejas Mk-1A fighters (Rs480bn contract), originally expected by Mar 2024, but the first aircraft rolled off the line only by mid-2025. Any significant hiccups in Tejas, LCH or Su-30 upgrade programs – from design issues to quality problems – could defer revenue into later years or even prompt the MoD to consider alternative suppliers or platforms.

### Export and market uncertainties ►

Despite the government's ambition to triple defence exports by 2027F, HAL has struggled to translate this into orders. Past efforts have been hampered by certification and compliance issues: for instance, its first indigenous helicopter missed EU (EASA) export approvals for years due to unanticipated requirements. If export deals fail to materialize on scale, HAL's growth will depend almost entirely on domestic orders. This leaves it exposed to shifts in Indian defence budgets or strategic priorities and delays any easing of its order pipeline concentration.

## About Hindustan Aeronautics

Hindustan Aeronautics or HAL is India's flagship public-sector aerospace and defence manufacturer, headquartered in Bengaluru. Established in 1940 (as Hindustan Aircraft), HAL is now a Maharatna PSU (granted in Oct 2024) engaged in the design, development, manufacture, repair/overhaul and upgrade of a broad range of military and civilian platforms. Its portfolio includes fixed-wing and rotary-wing aircraft, engines, avionics and aerospace structures. HAL operates through five major complexes (Bengaluru, MiG, helicopter, accessories and design) encompassing ~20 production divisions and 11 research & development centres spread across India.

### Key product segments ►

HAL's product lines cover aircraft, helicopters, engines, avionics, accessories and structures. The company produces combat and trainer aircraft (e.g. the Tejas Light Combat Aircraft, Dornier-228 utility planes and licensed Hawk jet trainers) as well as transport and patrol aircraft.

It also makes many types of rotary-wing platforms, notably the Advanced Light Helicopter (ALH/Dhruv) and its variants (LCH and new LUH helicopters). HAL's indigenous Tejas Light Combat Aircraft is among its flagship products. In the aero-engine space, HAL manufactures and overhauls turbofan and turboshaft engines (including the HAL-Safran Shakti for helicopters and license-produced jet engines), as well as ancillary systems.

It supplies aircraft components and structures (fuselages, wings, fuel tanks, cryogenic stages, etc.) and develops avionics and mission systems (flight data recorders, heads-up displays, inertial navigation, radars, fuel-management, hydraulic systems and more). Additionally, HAL provides extensive MRO (maintenance, repair & overhaul) services for its platforms. Many HAL products are exported to friendly countries (e.g. helicopters and transport planes) and the company has joint ventures for parts export; overall HAL serves India's defence, civil aerospace and even space programs.

### Manufacturing facilities ►

HAL's manufacturing footprint spans key aerospace complexes across India. The Bengaluru complex (headquarters) houses several divisions – for example, the aircraft division (overhaul of fighters/training aircraft), the helicopter division (assembly of Dhruv/LCH helicopters), the LCA division (Tejas production and LCA R&D), and the aero engine & gas turbine division (Shakti engine, marine/industrial turbines).

The MiG Complex at Nashik (est. 1964) produced MiG-series fighters and now licence-builds Sukhoi Su-30MKIs. The helicopter complex (Bengaluru) and nearby facilities also produce/overhaul helicopters like ALH, LCH and Light Utility Helicopters. The transport aircraft complex in Kanpur assembles the Dornier-228 (civil/patrol) and supports other utility aircraft. The accessories complex (Lucknow/Korwa) fabricates avionics and sub-systems (e.g. flight electronics, hydraulic units, ejector racks). The gas turbine division at Koraput (Odisha) manufactures aero-derivative turbines and engines for aviation and marine use. HAL is expanding capacity under India's defence corridors – for example, it has invested in the Uttar Pradesh Defence Industrial Corridor to boost production at its Lucknow, Korwa and Kanpur units.

### R&D centres and capabilities ►

HAL maintains an extensive R&D organization of about 11 specialized centres, usually co-located with its production units. Key R&D centres include the Aircraft Research & Design Centre (Bengaluru) – for fixed-wing aircraft design (Tejas, Dornier upgrades, etc.) – and the Rotary Wing R&D Centre (Bengaluru) – for helicopters (Dhruv/LCH/LUH development).

Also, in Bengaluru is the Aero Engine R&D Centre, which designs small/medium turbofans and turboshafts (work has ranged from the indigenous HTFE engine to joint projects with Safran).



The Transport Aircraft R&D Centre (Kanpur) handles development and upgrades for transport/utility planes. An Aircraft Upgrades R&D Centre (Nasik) focuses on modernizing Russian-origin jets (MiG/Su) with new avionics and weapon systems. The Aerospace Systems & Equipment R&D Centre (Lucknow) develops mechanical, hydraulic and electronic sub-systems. The Gas Turbine R&D Centre (Koraput) works on aero-engine improvement. In addition, HAL has central labs (e.g. materials & processes) for developing new alloys, composites and manufacturing techniques. These R&D centres support projects like the HTT-40 basic trainer, ALH/LCH improvements, LCA Mk1A development, and even higher-end programs (e.g. HTFE engine design).

### Recent expansions, collaborations and tie-ups ➤

In recent years HAL has pursued several strategic partnerships and contracts. Internationally, HAL has joined with OEMs under the 'Make in India' initiative: for example, at Aero India 2025, HAL and France's Safran agreed to co-produce forged turbine parts for the CFM LEAP engine (used on Boeing/Airbus jets).

HAL has a long-standing collaboration with Rolls-Royce on the Adour engine (used by India's Hawk trainers) and, in 2021, signed a Memorandum with Rolls-Royce to make Adour components in India. It also works with Boeing (e.g. supplying gun bay doors for the F/A-18 Super Hornet) and Israel Aerospace Industries, having signed an MoU in 2022 to convert civilian transport aircraft into tanker and special-mission platforms.

Domestically, HAL is opening up to the private sector: in Mar 2025 it invited four Indian companies (Tata Advanced Systems, Bharat Forge, L&T, VEM) to form a 50:50 joint venture for production of the AMCA (Advanced Medium Combat Aircraft) airframe.

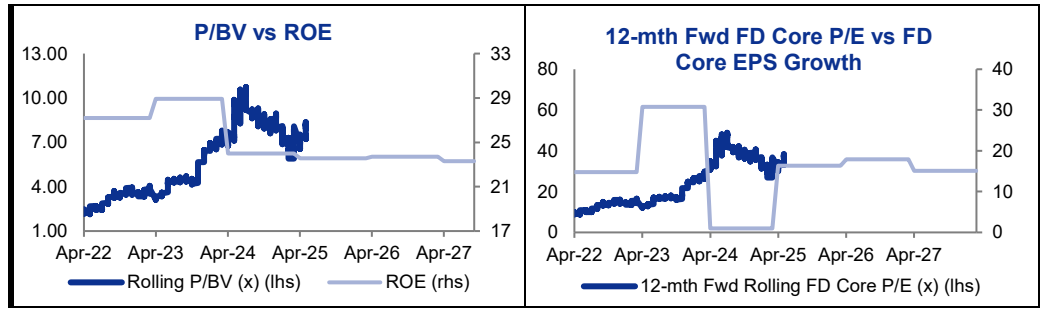
### Management ➤

**Figure 39: Key management personnel**

Name	Designation	
Mr. C B Ananthakrishnan	Director (Finance) & CFO, Chairman and Managing Director	Mr. C.B. Ananthakrishnan is a Commerce Graduate and Post Graduate in Business Administration from Madras University and is a fellow member of Institute of Cost Accountants of India. He has also received management and leadership training from Indian Institute of Management, Ahmedabad and Institut Aeronautique et. Spatiale (IAS) Toulouse, France. Mr. C.B. Ananthakrishnan joined HAL in 2004 and has over 36 years of work experience in both public and private sectors with stints in merchant banking, pharmaceuticals, fertilizers and aerospace Industries. He was appointed as Director (Finance) & CFO of the company with effect from 1 Aug 2018. He has been entrusted with additional charge as Chairman and Managing Director (CMD) of the company w.e.f 1 Aug 2022.
Mr. Jayadeva E. P.	Director Operations	Mr. Jayadeva E. P. was appointed as Director (Operations) of the company w.e.f 10 Jun 2022. Prior to this role, he served as General Manager, LCA Tejas Division. He holds a Bachelor's degree in Electrical Engineering from University Visvesvaraya College of Engineering, Bengaluru and did Masters from IIT, Madras in aircraft production engineering. Joining HAL in 1987 as a Management Trainee, Mr. Jayadeva E. P. has varied experience in the areas of Manufacturing, Assembly, Overhaul, Upgrades, Customer support, Indigenization, and other Management functions. He has been instrumental in establishing new infrastructure for aircraft manufacture/overhaul and in developing indigenous solutions, both in airborne applications and ground support requirements within the Indian ecosystem. Earlier, as the Head of LCA Tejas Division, Bengaluru, he established strategic outsourcing of structural assemblies to Indian Industries, and undertook initiatives for enhancement of product quality and production capacity.
Dr. D.K. Sunil	Director Engineering and R & D	Dr. D.K. Sunil was appointed as Director (Engineering and Research & Development) of the company w.e.f 29 Sep 2022. He heads the R&D centres of the company. Prior to taking over as Director (Engg. and R&D), Dr. D.K. Sunil was heading the Strategic Electronics Research and Design Centre of HAL at Hyderabad as its General Manager. He is graduate in Electronics & Communication Engineering from Osmania University, Hyderabad and M. Tech in Aircraft Production from IIT, Madras. He was awarded Ph.D in Electronics Science from University of Hyderabad in the year 2019. He joined HAL in 1987 as a Management Trainee and has about 37 years of experience in varied roles in the company, contributing significantly to production, quality enhancement, and customer support issues.
Mr. Atasi Baran Pradhan	Director Human Resources	Mr. Atasi Baran Pradhan, has been the Director (Human Resources), Hindustan Aeronautics since 19 Jul 2023. Prior to his appointment as Director (HR), he held various positions in the company, most recently serving as General Manager (HR) and as Executive Director (HR). Mr. A B Pradhan holds a Bachelor's Degree in Chemistry (Hons.) and a Post-Graduate Degree in Personnel Management & Labour Welfare from Utkal University, Bhubaneswar, as well as a Bachelor of Laws (LLB) degree from University Law College, Bhubaneswar.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Net Revenues</b>	<b>303,811</b>	<b>309,810</b>	<b>356,991</b>	<b>430,815</b>	<b>523,458</b>
<b>Gross Profit</b>	<b>193,220</b>	<b>186,929</b>	<b>221,004</b>	<b>262,398</b>	<b>308,355</b>
<b>Operating EBITDA</b>	<b>97,411</b>	<b>96,081</b>	<b>111,406</b>	<b>130,136</b>	<b>147,652</b>
Depreciation And Amortisation	(14,072)	(13,404)	(14,929)	(16,954)	(19,041)
<b>Operating EBIT</b>	<b>83,339</b>	<b>82,677</b>	<b>96,477</b>	<b>113,182</b>	<b>128,611</b>
Financial Income/(Expense)	(321)	(87)	(100)	(121)	(147)
Pretax Income/(Loss) from Assoc.	265	407	407	407	407
Non-Operating Income/(Expense)	18,966	18,985	21,877	26,401	32,078
<b>Profit Before Tax (pre-EI)</b>	<b>102,249</b>	<b>101,982</b>	<b>118,660</b>	<b>139,868</b>	<b>160,948</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>102,249</b>	<b>101,982</b>	<b>118,660</b>	<b>139,868</b>	<b>160,948</b>
Taxation	(26,039)	(25,032)	(29,142)	(34,369)	(39,564)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>76,210</b>	<b>76,950</b>	<b>89,518</b>	<b>105,499</b>	<b>121,385</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>76,210</b>	<b>76,950</b>	<b>89,518</b>	<b>105,499</b>	<b>121,385</b>
Recurring Net Profit	76,210	76,950	89,518	105,499	121,385
<b>Fully Diluted Recurring Net Profit</b>	<b>76,210</b>	<b>76,950</b>	<b>89,518</b>	<b>105,499</b>	<b>121,385</b>

### Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>EBITDA</b>	<b>97,411</b>	<b>96,081</b>	<b>111,406</b>	<b>130,136</b>	<b>147,652</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(31,251)	47,556	(11,905)	(18,627)	(23,376)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
<b>Other Operating Cashflow</b>	<b>35,355</b>	<b>20,859</b>	<b>(4,481)</b>	<b>(5,408)</b>	<b>(6,571)</b>
Net Interest (Paid)/Received					
Tax Paid	(19,693)	(35,382)	(29,142)	(34,369)	(39,564)
<b>Cashflow From Operations</b>	<b>81,821</b>	<b>129,115</b>	<b>65,878</b>	<b>71,732</b>	<b>78,141</b>
Capex	(9,085)	(9,267)	(28,515)	(29,139)	(29,980)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
<b>Other Investing Cashflow</b>	<b>(55,016)</b>	<b>(98,444)</b>	<b>66,736</b>	<b>(73,101)</b>	<b>(86,186)</b>
<b>Cash Flow From Investing</b>	<b>(64,101)</b>	<b>(107,711)</b>	<b>38,221</b>	<b>(102,241)</b>	<b>(116,166)</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,729)	(25,414)	(29,564)	(34,842)	(40,088)
Preferred Dividends					
Other Financing Cashflow	(260)	(372)	41,302	64,661	81,150
<b>Cash Flow From Financing</b>	<b>(19,989)</b>	<b>(25,785)</b>	<b>11,738</b>	<b>29,819</b>	<b>41,061</b>
Total Cash Generated	(2,268)	(4,381)	115,838	(689)	3,037
<b>Free Cashflow To Equity</b>	<b>17,720</b>	<b>21,404</b>	<b>104,099</b>	<b>(30,508)</b>	<b>(38,024)</b>
<b>Free Cashflow To Firm</b>	<b>17,720</b>	<b>21,404</b>	<b>104,099</b>	<b>(30,508)</b>	<b>(38,024)</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	264,424	381,897	447,615	536,595	645,339
Total Debtors	46,169	46,478	53,556	64,631	78,530
Inventories	132,175	216,757	249,767	301,418	366,235
Total Other Current Assets	187,407	255,814	294,773	355,730	432,227
<b>Total Current Assets</b>	<b>630,175</b>	<b>900,946</b>	<b>1,045,711</b>	<b>1,258,374</b>	<b>1,522,331</b>
Fixed Assets	82,934	86,774	99,566	110,932	121,011
Total Investments	13,897	15,095	17,394	20,991	25,504
Intangible Assets					
Total Other Non-Current Assets	53,946	59,853	68,507	81,395	97,296
<b>Total Non-current Assets</b>	<b>150,777</b>	<b>161,722</b>	<b>185,467</b>	<b>213,318</b>	<b>243,812</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	34,129	51,057	58,832	70,998	86,266
Other Current Liabilities	329,115	389,896	449,273	542,181	658,773
<b>Total Current Liabilities</b>	<b>363,243</b>	<b>440,953</b>	<b>508,106</b>	<b>613,179</b>	<b>745,039</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	126,290	271,864	313,267	378,049	459,345
<b>Total Non-current Liabilities</b>	<b>126,290</b>	<b>271,864</b>	<b>313,267</b>	<b>378,049</b>	<b>459,345</b>
Total Provisions					
<b>Total Liabilities</b>	<b>489,534</b>	<b>712,817</b>	<b>821,372</b>	<b>991,228</b>	<b>1,204,384</b>
Shareholders Equity	291,382	349,816	409,770	480,427	561,723
Minority Interests	36	36	36	36	36
<b>Total Equity</b>	<b>291,418</b>	<b>349,852</b>	<b>409,805</b>	<b>480,463</b>	<b>561,759</b>

### Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	12.8%	2.0%	15.2%	20.7%	21.5%
Operating EBITDA Growth	45.8%	(1.4%)	16.0%	16.8%	13.5%
Operating EBITDA Margin	32.1%	31.0%	31.2%	30.2%	28.2%
Net Cash Per Share (Rs)	395.38	571.04	669.30	802.35	964.95
BVPS (Rs)	435.69	523.07	612.71	718.36	839.92
Gross Interest Cover					
Effective Tax Rate	25.5%	24.5%	24.6%	24.6%	24.6%
Net Dividend Payout Ratio	25.9%	33.0%	33.0%	33.0%	33.0%
Accounts Receivables Days	56.08	54.58	51.14	50.07	49.91
Inventory Days	418.60	518.23	626.09	597.28	566.46
Accounts Payables Days	108.05	126.52	147.48	140.69	133.43
ROIC (%)	59.8%	36.8%	37.4%	37.6%	36.7%
ROCE (%)	31.6%	25.8%	25.4%	25.4%	24.7%
Return On Average Assets	10.5%	8.4%	7.8%	7.8%	7.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## India

**ADD** (Initiating coverage)

Consensus ratings\*: Buy 24 Hold 1 Sell 3

Current price:	Rs408
Target price:	Rs459
Previous target:	NA
Up/downside:	12.5%
InCred Research / Consensus:	14.8%
Reuters:	BAJE.NS
Bloomberg:	BHE IN
Market cap:	US\$34,464m
	Rs2,984,217m
Average daily turnover:	US\$90.7m
	Rs7857.8m
Current shares o/s:	7,309.8m
Free float:	48.9%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.2	37.4	30.9
Relative (%)	11.3	28.3	22.6

Major shareholders	% held
Promoter	51.1
Nippon Life Asset Management	3.2
Kotak Mahindra Asset Management	2.6

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# Bharat Electronics Ltd

## Battle-tested for growth & profitability

- Expected orders worth Rs570bn in FY26F, current order book at Rs716bn and a multimillion-dollar project pipeline provide confidence in revenue visibility.
- Operation Sindoor proved the superiority of BEL's system as its IACCS was the backbone of air defence. BEL is a trusted partner in defence electronics.
- Govt. push to 'Atmanirbharta' in defence via DAC 2020 makes BEL a major beneficiary of indigenization, strongly tying it to DRDO and defence services.

### Expects Rs570bn of orders; outstanding order book at Rs716bn

Bharat Electronics or BEL's order book is set to expand sharply over FY26F–28F. At about Rs716bn as of Mar 2025-end, we expect the order book to rise to roughly Rs1,008bn by FY26F, remain elevated at ~Rs982bn in FY27F and at ~Rs1,300bn in FY28F. This jump in FY26F will be driven by large pending order wins – notably BEL expects to bag the Rs300bn QRSAM order – on top of its current backlog, and in FY28F Project Kusha order worth Rs400bn is expected.

### Battle-tested systems boost global standing and leadership

The government's Operation Sindoor has validated BEL's technological edge under fire. The demonstrated effectiveness of Akashteer, IACCS and allied systems not only cements BEL's standing as the Ministry of Defence's go-to supplier but also underpins growing global credibility. This real-world proof point supports our bullish view: BEL's proven platforms are poised to drive follow-on orders, both at home (emergency procurements, future AD networks) and abroad (exports), anchoring the company's leadership in India's defence electronics sector.

### Unmatched trust and track record solidifies ties with government

BEL has been the govt's go-to for secretive, high-end systems. We note that for sensitive EW & radar systems, the MoD has repeatedly given BEL priority single-source contracts on the ground that a PSU can be fully trusted on security. We see solid investment opportunity in BEL & the proof is in execution: BEL consistently delivers complex programs on time. For instance, the Swathi Weapon-Locating Radars and Tactical Surveillance Radars it developed for the army were delivered in record time, and BEL has executed every major order for Indian naval and air-defence radars over the last two decades. BEL's size and government backing means it controls key sub-systems and has a final say on architecture – a moat that TASL/L&T and global OEMs simply cannot match domestically.

### Valuation to remain at a premium; initiate coverage with ADD rating

BEL's robust order book, coupled with expected orders' long-term visibility, provides strong revenue and growth confidence. The success of Operation Sindoor enhances its global standing and export potential. Aided by the govt's push for indigenization, and a trusted partnership with the Ministry of Defence, BEL is well-positioned as a key beneficiary in the defence sector. We initiate coverage on it with a target price of Rs459, based on a 44×P/E applied to forecasted FY27F EPS of Rs10.4. Downside risks: Revenue growth hinges on timely award of large domestic orders, margin risks stem from product mix.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	202,682	237,687	278,056	326,199	381,701
Operating EBITDA (Rsm)	50,464	68,338	79,801	96,879	111,455
Net Profit (Rsm)	39,431	52,874	62,320	75,963	87,694
Core EPS (Rs)	5.4	7.2	8.5	10.4	12.0
Core EPS Growth	(10.6%)	34.1%	17.9%	21.9%	15.4%
FD Core P/E (x)	75.68	56.44	47.89	39.28	34.03
DPS (Rs)	2.0	2.3	2.7	3.3	3.8
Dividend Yield	0.49%	0.56%	0.66%	0.81%	0.93%
EV/EBITDA (x)	56.94	42.27	35.91	29.66	25.48
P/FCFE (x)	(229.14)	254.54	74.88	207.91	50.50
Net Gearing	(67.7%)	(47.8%)	(48.9%)	(37.7%)	(40.9%)
P/BV (x)	18.28	14.94	12.32	10.15	8.43
ROE	26.1%	29.1%	28.2%	28.3%	27.1%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Expected orders worth Rs570bn in FY26F and outstanding order book of Rs716bn provides long-term revenue confidence

Bharat Electronics or BEL's order book is set to expand sharply over FY26F–28F. At about Rs716bn as of Mar 2025-end, we expect the order book to rise to roughly Rs1,008bn by FY26F, and remain elevated at ~Rs982bn in FY27F and ~Rs1,300bn by FY28F. **This jump in FY26F is driven by large pending order wins – notably BEL expects to bag the Rs300bn Quick Reaction SAM order – on top of its current backlog.**

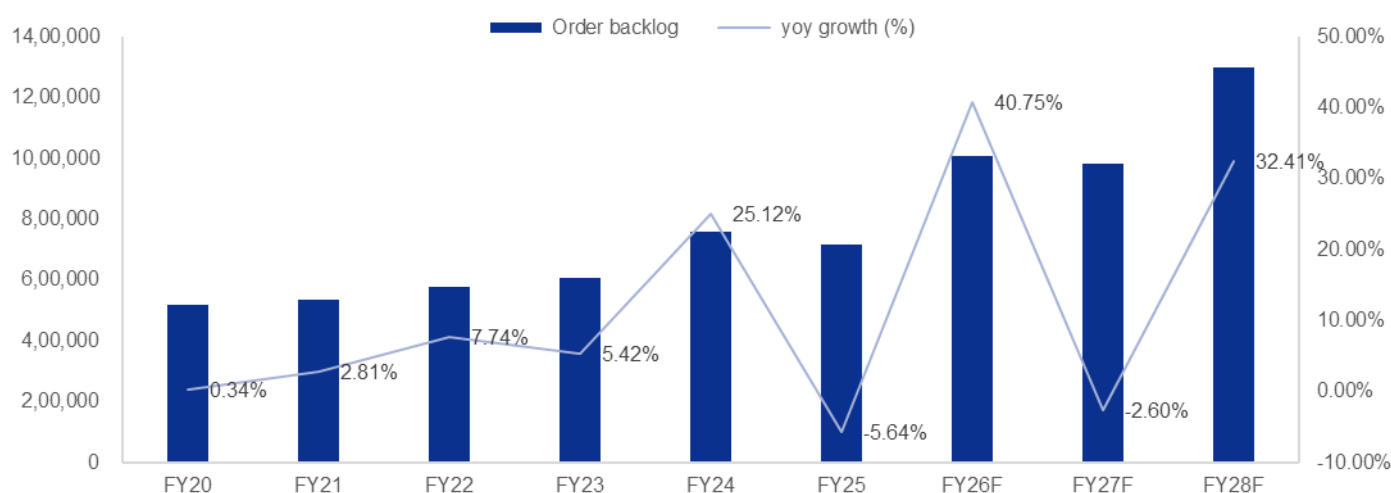
Beyond these, BEL's position as India's defence electronics leader underpins a broad pipeline: anticipated contracts span new and upgraded platforms including Tejas Mk-1A/II fighters, light utility and combat helicopters, Su-30MKI avionics, etc., and major naval programs namely Project-75I submarines with AIP modules, additional Scorpene boats, P-17A frigates and future corvettes/destroyers.

BEL is also the prime integrator or supplier for multiple advanced sensors/EW systems – it recently secured the Rs22.6bn Shakti naval EW order, is developing a drone-mounted ELINT collection system, won an ~US\$330m deal for 18 Ashwini low-level transportable radars, and will supply the ADFCR 'Atulya' medium-range air-defence radar (expected Rs20bn–30bn), among others. These visible wins, along with BEL's upcoming Akash missile upgrades and other FIRP programs, substantiate our forecast.

**Policy tailwinds reinforce this outlook:** Roughly 75% of India's FY26 defence capex is being earmarked for domestic procurement under the Make-in-India/Aatmanirbhar push, and the Defence Acquisition Council (DAC) has approved ~Rs8.5tr of procurements in FY23–25.

The combination of a strong project pipeline and a government drive for indigenization supports robust order book growth and sustained execution visibility for BEL over the next three-to-four years.

**Figure 40: Promising order book visibility in the coming years**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Battle-tested systems boost global standing

Bharat Electronics' homegrown defence platforms were battle-tested and validated in India's recent Operation Sindoor. The army's Akashteer and the Indian Air Force or IAF's IACCS networks – both designed and built by BEL – operated as the backbone of India's layered air defence. BEL reported that Akashteer has proved its mettle in the war-field, spotting enemy UAVs at six border nodes and even intercepting a "barrage of missiles and drones" from Pakistan.



In practice, Akashteer delivered a seamless, unified air picture to frontline units, providing “robust air defence” and greatly enhanced situational awareness. These outcomes confirmed the systems’ reliability under real combat conditions.

- **Akashteer AD Network (Army):** BEL’s next-gen Akashteer Air Defence Control & Reporting System (Rs20bn contract) was deployed at six western fronts. It successfully spotted the enemy drones and engaged them with the weapon closest to the target. The system intercepted and neutralized every inbound projectile, acting like an invisible shield against Pakistani air attack. BEL highlighted that Akashteer performed beyond users’ expectations and provided a unified air situation picture to even the lowest army air defense.

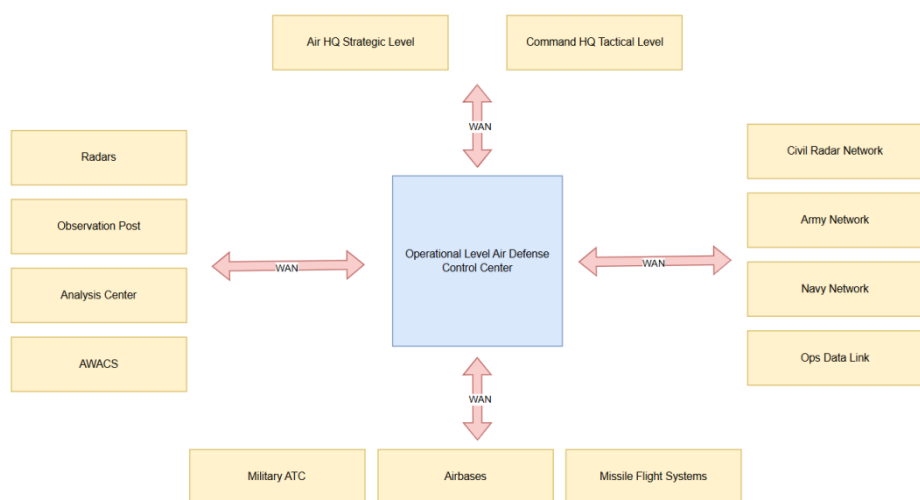
**Figure 41: Akashteer system developed by BEL**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **IACCS Command & Control (IAF):** IAF’s Integrated Air Command & Control System is a BEL-developed network linking all ground radars, sensors (AWACS, UAVs, etc.) and communication. During Operation Sindoor, it gave commanders a consolidated real-time airspace picture, reducing reaction times across the force. BEL confirms that IACCS proved to be the key player in defending India’s airspace during the clash, embodying true network-centric warfare. This automated linkage of air-defence assets (fighter, missile and gun batteries) was crucial to intercepting threats before they reached sensitive targets.

**Figure 42: IACCS played a central role in air defence during Operation Sindoor**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Counter-Drone & EW Systems:** BEL’s other systems also excelled under fire. The laser-based IDDIS counter-drone unit shot down several low RCS drones of Pakistan during the operation. Upgraded AD guns (Shilka, L-70) and



precision EW suites (recently contracted) further strengthened the multilayered shield. The MoD publicly hailed Akashteer and associated C4ISR systems as an asset in intelligent warfare that automates detection, tracking and engagement. Altogether, these combat successes reinforce that BEL's electronics work reliably in real scenarios – a powerful endorsement for ongoing and future MoD programs.

**Figure 43: Anti-drone system for soft & hard kill**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Global standing & exports:** This war-testing has turbo-charged BEL's export appeal. The company reports growing interest from foreign buyers in the Middle East, Africa and Latin America, and it is explicitly targeting ~10% of revenue from exports by 2030F. Recent contracts illustrate this trend: for example, BEL won a €25.75m (Rs2,300m) export order to supply fighter-radar transmitter/receiver modules to Thales. In short, overseas armed forces are taking note of BEL's battle-proven systems.

Operation Sindoor has validated BEL's technological edge under fire. The demonstrated effectiveness of Akashteer, IACCS and allied systems not only cements BEL's standing as the Ministry of Defence or MoD's go-to supplier, but also underpins growing global credibility. For investors, this real-world proof point supports a bullish view: BEL's proven platforms are poised to drive follow-on orders, both at home (emergency procurements, future AD networks) and abroad (exports), anchoring the company's leadership in India's defence electronics sector.

## Market leadership and scale

BEL is the undisputed leader in India's defence electronics, commanding a roughly **37% share of the domestic market**. As a Navratna MoD-owned PSU (the government holds ~51% stake), BEL benefits from consistent prime-ministerial support. Its **order backlog** stands close to **Rs716bn** as of Apr 2025-end, roughly 3× its FY25 sales. This multi-year order book – comprising cutting-edge radars, guns, communication suites, electronic warfare (EW) gear, etc. – gives BEL exceptional revenue visibility and capacity utilization.

BEL's scale is unmatched: it regularly wins multi-thousand-crore contracts (radars, EW suites, communication networks) and its plants have the volume

capacity to deliver en masse (e.g. BEL recently produced its 7,000th transmit/receive module for the Rafale radar).

### Deep, end-to-end capabilities ➤

BEL's product portfolio spans **all major defence-electronics domains**. Its radars include **ground surveillance and 3D/4D air-defence arrays** (e.g. the indigenously-developed Arudhra 4D AESA radar and the Ashwini mobile radar), apart from coastal and naval surveillance radars. In C4ISR and battlefield management, BEL provides command-and-control suites (like the Trinetra integrated air-defence C4I system) and is the lead member of India's new **Battlefield Management System (BMS)** program.

Figure 44: AESA radar, developed by BEL, is used in Rafale jets



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BEL's electronic warfare products (radar/missile warning receivers, jammers and countermeasures) are in service on virtually every front – for example, a recent Rs22bn deal supplies an advanced EW suit for IAF Mi-17V5 helicopters.

On the naval side, BEL builds shipborne systems (sonar, fire-control radars and sonar decoys), and for the army it supplies everything from weapon-locating radars to indigenous sonars. The company also leads in electro-optics (thermal weapon sights, drones' payloads, optronic trackers, etc.) and secure communication hardware.

This **end-to-end integration** is a competitive advantage. BEL doesn't just assemble parts: it designs hardware and software in-house, often in close partnership with DRDO labs. Nearly every BEL flagship project is co-developed with DRDO (e.g. the CASDIC lab designed the new fighter-jets' RWR and missile-warning systems that BEL now manufactures; its LDRE lab gave the blueprint for the 4D air-defence radar built at BEL).

**Such tight DRDO–BEL linkage means BEL essentially controls the full value chain – from chip and ASIC development to system integration – enabling high indigenization.** This is why even global partners turn to BEL: for example, BEL and Thales formed a radar joint venture or JV for India's needs, and BEL produces critical radar modules under licence - it has delivered ~7,000 AESA modules to Thales for Rafale fighter jets.

### Unmatched trust and track record ➤

BEL's standing far exceeds that of any other Indian player. Private challengers like Tata Advanced Systems (TASL) and L&T Defence are rapidly expanding (TASL via JV with Boeing/Lockheed and space projects, L&T Defence in shipbuilding and missiles), but **none match BEL's track record or scope in electronics.**

BEL has been the government's go-to for secretive, high-end systems. We note that for sensitive EW and radar systems, the MoD has repeatedly given BEL

priority 'single-source' contracts on the ground that a PSU can be fully trusted on security. We see a solid investment opportunity in BEL and the proof is in execution: BEL consistently delivers complex programs on time. For instance, the Swathi Weapon-Locating Radars and Tactical Surveillance Radars it developed for the army were delivered in record time, and BEL has fulfilled every major order for Indian naval and air-defence radars over the last two decades.

By contrast, TASL and L&T Defence often rely on foreign technology transfers or sub-contracts. TASL's strength lies in aerospace assembly (e.g. C-295 transport fuselages and MRO agreements) and missile hardware (e.g. Akash launchers), but it lacks BEL's indigenous radar/EW know-how.

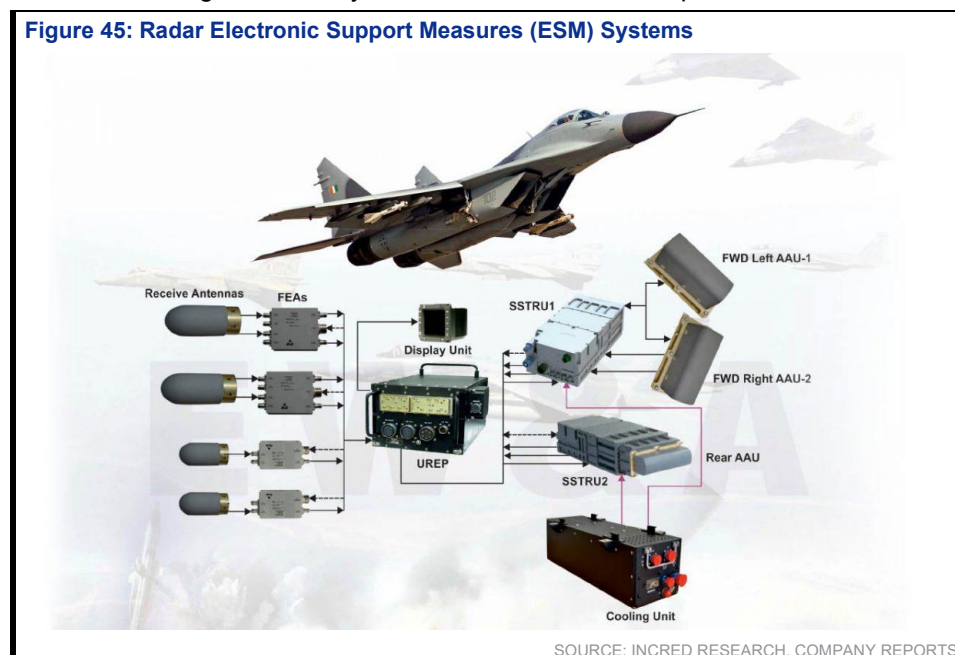
L&T Defence is very competent in missiles and shipbuilding, yet its standalone electronics products (beyond manufacturing partnerships) are limited. BEL is in a perfect spot for India's missile and air-defence build-out **because it can act as the full-system integrator** – a role neither private peer has earned at the same scale. Foreign OEMs (Thales, Raytheon, Elbit, etc.) bring niche tech, but under 'Make in India' they can only sell as JV partners or licensed suppliers. BEL's size and government backing means it controls key sub-systems and has a final say on architecture – a moat that TASL/L&T and global OEMs simply cannot match domestically.

### Scale, indigenization and government backing ►

BEL's advantages stem from scale and state support. As a Navratna PSU, it enjoys priority in capital budget allocations and easier access to foreign collaborations. The MoD remains its largest customer and shareholder, and BEL often gets early visibility of new programs. Importantly, BEL has a vast on-the-ground infrastructure: multiple manufacturing units (electronics, RF modules, mechanical systems), several in-house R&D centres, and vendor networks extending to MSMEs.

This scale lets BEL achieve high indigenization percentages (often 90%+ on complex systems) and favourable economics (higher margin on integrated products). Its R&D base (with laboratories in Bengaluru, Chennai, Hyderabad, etc.) is the largest in the Indian defence sector. **Many BEL engineers come straight from DRDO labs, meaning BEL is effectively an extension of India's defence R&D ecosystem. For example, the Combat Air Systems D&I Centre (DRDO) designs BEL's fighter-jet EW suites, BEL's director (R&D) has worked at DRDO.** This synergy is self-reinforcing: BEL helps DRDO prototype and mature new tech (so MoD feels confident in buying Indian equipment), while BEL then leverages its factory lines to scale that tech for production.

**Figure 45: Radar Electronic Support Measures (ESM) Systems**



Government backing also provides BEL long-term stability and trust among the services. It is seen as the “safety bank” for projects that cannot fail. By contrast, private players can be deprioritized if international politics shift, but a PSU like BEL is aligned with national strategy. This enables BEL to plan multi-year investments and to hold large inventories/spares (an important advantage in defence readiness). In short, BEL’s corporate pedigree – with the MoD on its side – means it is the **default, trusted supplier** for the Indian armed forces.

### Emerging programs in the future ➤

All these advantages position BEL to dominate the next generation of Indian defence programs. In **network-centric warfare systems**, BEL is at the forefront. It is already leading India’s new BMS initiative: a BEL/Rolta consortium has won roughly 70% of that project, leveraging BEL’s unique Tactical C3I experience. Its communication and command suites (e.g. Trinetra AD C4I, mobile C2 centres) will be integral to future integrated AD grids and artillery networks.

In **air defence**, BEL will supply major components for the long-awaited Integrated Air Defence System (combining radars, AWACS, missiles); for instance, its multi-function radars and RWRs are slated upgrades in the SRSAM and Squad Air Defence Gun programmes. In **radars**, BEL is already rolling out AESA upgrades across the army and navy (Ashwini and Arudhra radars) and will likely be sole supplier for India’s next satellite and LRTR (aircraft tracking) radars.

Meanwhile, BEL’s **electro-optic and EW** businesses stand ready for growth. India’s push to field UAVs and loitering munitions will require BEL’s IR sensors and laser warning receivers. The 2025-2030 Defence Acquisition Plans envisage multiple dozen new missile and gun systems – each needing radars, fire-control and EW – all prime domains for BEL. On the naval front, BEL’s sonar and combat-management systems will be in high demand as the navy rapidly expands. In each case, BEL’s combination of *breadth* (covering every sub-system) and *depth* (mature tech and in-house fabrication) gives it an edge. When India grows on defence indigenization, HAL and BEL emerge as the best-positioned names.

BEL’s **scale, indigenization, and integration advantages** – backed by government support and long-term R&D collaboration – make it the default anchor for India’s electronics-driven defence build-up.

**BEL is not merely another supplier but the lynchpin of India’s strategic electronics industry. Its current order book and market position imply several years of growth, and its role as a trusted integrator of future systems suggests a durable lead over any competitor.**



## Indigenization and DAC clearances

Government policy strongly favours BEL's business model. The 'Aatmanirbhar Bharat' drive for defence self-reliance has dramatically shifted procurement to Indian suppliers, bolstering BEL's outlook. Since 2020, the Defence Acquisition Council has approved record buy (Indian/IDDM) procurements – for example, FY22-23 acceptance of necessity totalling over Rs2.71tr (with 99% from domestic industry), and in 2023 approvals surpassed Rs3.50tr (e.g. a Nov 2023 package of Rs 2.23tr was 98% indigenously sourced). A Feb 2024 DAC round cleared Rs 845bn of projects explicitly "in the true spirit of Aatmanirbharta," laying special emphasis on Indian vendors. This wave of high-value, high-content domestic orders underpins India's Make-in-India/Aatmanirbhar policy.

BEL is a clear winner. The company is the preferred supplier for many of these programs. Recent orders include ~Rs 30bn order for the army's Integrated Electronic Warfare suites (DRDO-designed and built by BEL), ~Rs 13bn for the navy's fire-control, surveillance and sonar systems, and Rs3,800bn for Indian Air Force or IAF's medium-power radars (Arudhra 4D radars) and digital radar-warning receivers. These are flagship 'Atmanirbhar' projects. Similarly, the army's ~Rs300bn Quick Reaction Surface-to-Air Missile system – approved for purchase after the recent conflict – is an entirely indigenous air-defence program in which BEL is a key partner.

**In short, every major new radar, EW and naval-sensor program is likely to involve BEL as a key vendor.**

## Expanded role across platforms

BEL's addressable market is expanding as new weapons platforms come on stream. The company is positioned to supply electronics across nearly all major future programs. BEL will capture a major share of radar, missile, and electronic warfare (EW) sub-systems for upcoming projects. Notably, BEL is now qualified to supply the Uttam AESA radar for both Tejas Mk1A and Mk2 jets, and stands to win the Tejas fire-control radar upgrade. Similarly, the upcoming QRSAM air-defence missile (300bn program) and other DRDO systems are expected to generate large orders for BEL.

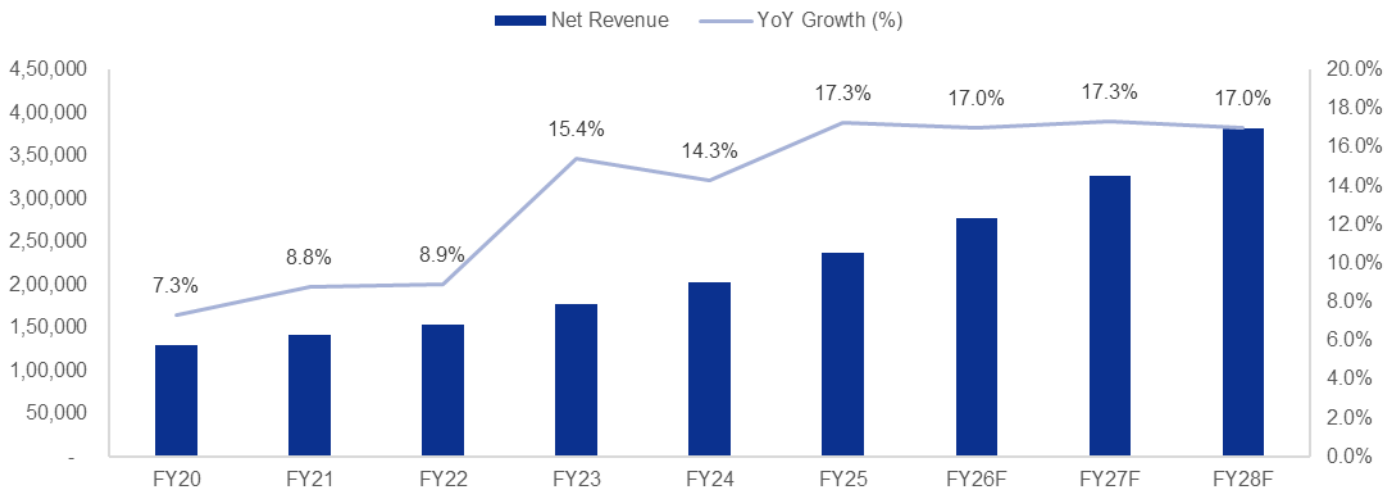
BEL has already secured JV agreements (e.g. with France's Safran to manufacture the HAMMER precision-guided bomb in India) and is in talks on naval and army EW projects. As platforms proliferate under Make in India, BEL should see its share of system content rising.

## Financial Outlook

### Revenue growth outlook

We forecast Bharat Electronics to deliver robust top-line expansion over the next three fiscal years, with revenue rising from Rs278bn in FY26F to Rs326bn in FY27F (a 17.3% increase) and further to Rs381bn in FY28F (17% growth). The 17.0% revenue growth projected in FY26F reflects strong execution on large radar, C4ISR and network-integration contracts secured over the past 12 months, as well as initial contributions from recent export wins. In FY27F, the sharper 17.3% jump will be driven by a higher volume from the new AESA radar and battlefield management system deliveries, while FY28F growth moderates slightly to 17% as those programs begin to stabilize volumetrically.

**Figure 46: Revenue to undergo healthy growth and capex to further fuel the growth by FY27F**

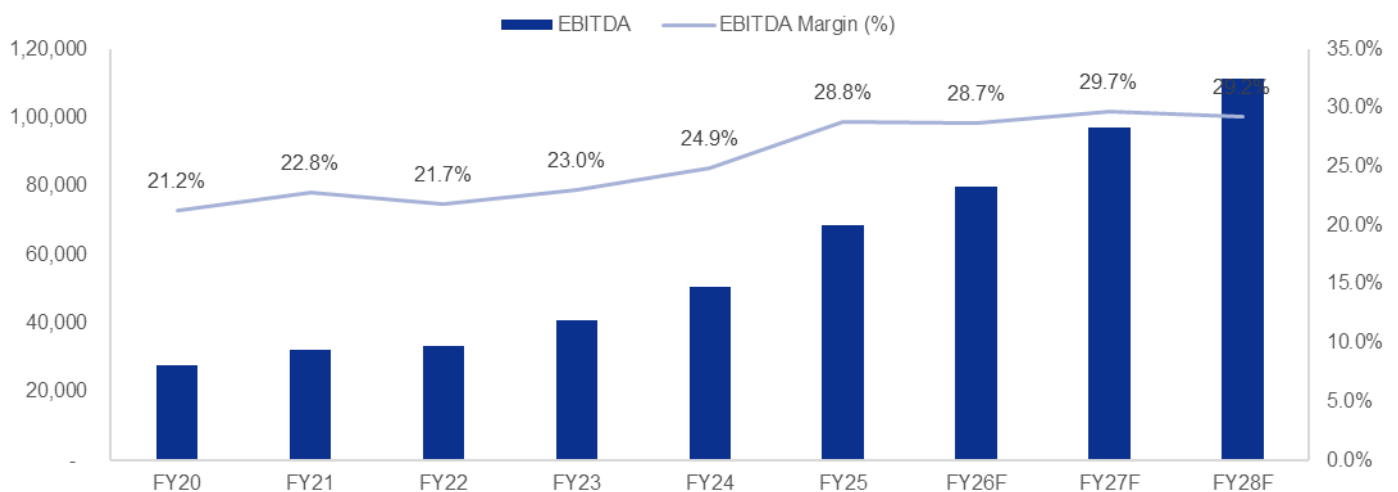


SOURCE: INCRED RESEARCH, COMPANY REPORTS

### EBITDA trend and margin dynamics

On an absolute basis, EBITDA is expected to increase from Rs79,801m in FY26F to Rs96,879m in FY27F (up 21.4%) and to Rs1,11,455m in FY28 (up 15.0%). Despite these sizeable operating-profit gains, we anticipate a stable EBITDA margin of ~29%.

**Figure 47: EBITDA margin to remain healthy**

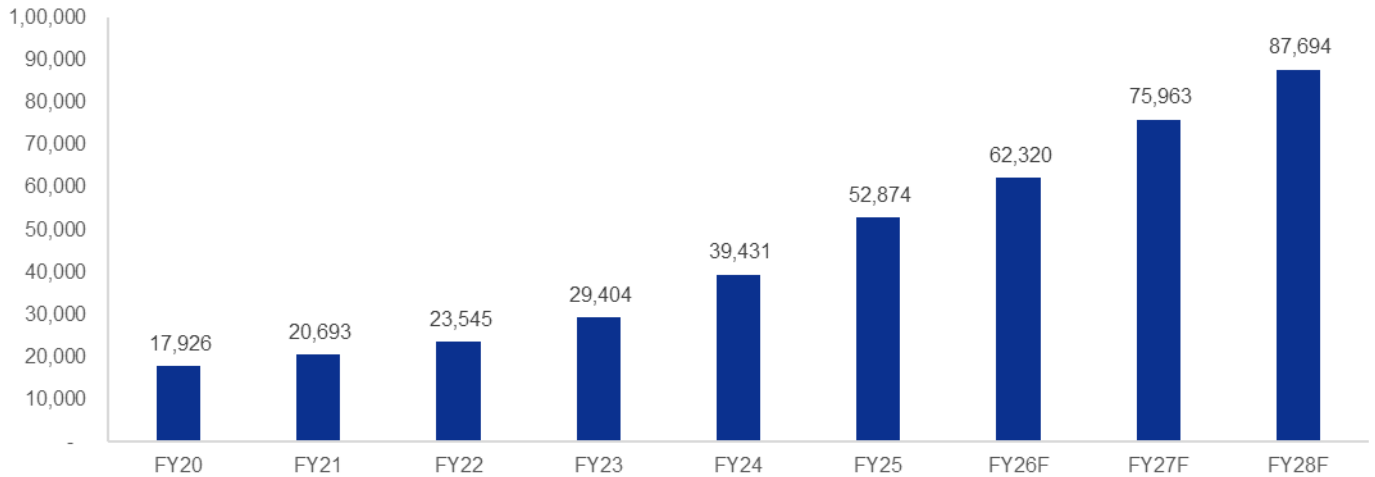


SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Profitability and net income growth

Profit before tax expected to climb in tandem with EBITDA, rising from Rs83,675m in FY26F to Rs1,01,993m in FY27F and to Rs1,17,744m in FY28F. After accounting for interest, depreciation and tax, PAT moves from Rs62,320m in FY26F to Rs75,963m in FY27F—a 22% increase—and further to Rs87,694m in FY28F (15% growth). The PAT growth slightly outpaces EBITDA growth through the period, helped by stable financing costs against higher absolute PBT and a steady effective tax rate. This leverage to operating leverage underpins a healthy rise in net income, supporting both dividend capacity and reinvestment in R&D.

**Figure 48: Reported PAT to witness stable growth**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## EPS trajectory and shareholder implications

Earnings per share is forecast to grow from Rs8.5 in FY26F to Rs10.4 in FY27F and to Rs12.0 in FY28F. The EPS uplift mirrors PAT gains and reflects a largely static share count. Coupled with a sustained gross margin of ~48% and conservative leverage, the rising EPS reinforces BEL's capacity to generate organic cash flow for capex, repay debt, and maintain or raise its dividend payout ratio. This combination of top-line resilience, mid-20s EBITDA margin and double-digit EPS growth underpins an attractive risk-reward profile in the domestic defence electronics sector.



## Valuation to remain at a premium

BEL's robust order book, coupled with expected orders' long-term visibility, provides strong revenue and growth confidence. The success of Operation Sindoor enhances its global standing and export potential. Supported by the government's push for indigenization, and a trusted partnership with MoD, BEL is well-positioned as a key beneficiary in the defence sector. We initiate coverage on the stock with a target price of Rs459, based on a 44× P/E applied to forecasted FY27F EPS of Rs10.4, which is +2SD of the last three years' mean forward P/E.

**Figure 49: Radar Electronic Support Measures (ESM) Systems**



## Key Risks

### Large domestic order delays & policy sensitivity ➤

BEL derives roughly 85% of its sales from the domestic defence sector. Its FY26F–28F revenue is premised on timely award and execution of major MoD programmes (e.g. QRSAM, MRSAM, fighter upgrade programs, etc.). However, BEL recently fell short of FY25 order target (it booked Rs187bn vs. guidance of Rs250bn), and the marquee Rs300bn QRSAM order has slipped into late FY26F. Any further slippage or cancellations in these large-ticket procurements, or abrupt changes in defence procurement policy or budgets, could materially slow BEL's revenue and backlog growth. This would put pressure on the company's FY26F–28F revenue and delay the leverage from its current Rs716bn order book.

### Export growth uncertainty ➤

BEL is aggressively pushing exports to diversify its revenue, but the export base remains small. BEL has ambitious targets but these assume winning international contracts in competitive markets. Any slower-than-expected traction – due to competition, geopolitical hurdles, or execution delay – would undermine these targets. As export orders currently contribute a modest portion to overall sales, any underperformance here would weaken BEL's growth profile and reduce its hoped-for margin diversification.

### Margin pressure from product mix & input costs ➤

BEL's high EBITDA margin partly reflects a mix tilted toward higher-margin products and services. If the revenue mix shifts towards large-scale hardware systems (typically lower margin) instead of aftermarket spares/services, overall profitability could be squeezed. In 4QFY25, for example, a better product mix drove a 407bp jump in the operating margin; the converse could erode margin. Additionally, BEL itself flags risks from rising raw material prices and component shortage (notably semiconductors). Such cost pressure – on top of any adverse mix effects – could compress the EBITDA margin and hurt FY26F–28F EPS growth.

## Backlog execution & working capital strains ➤

BEL's very large order backlog provides visibility but also execution risk. Fulfilling multi-year, capital-intensive orders can tie up significant inventory and receivables. Indeed, in FY25, BEL's receivables and inventory rose by ~23–22% while sales grew by 17%, suggesting higher working-capital needs (partly due to lower advance billing on new orders). If project delays occur or advance payments remain low, BEL may have to fund more working capital out of cash, exerting pressure on its cash flow. Coupled with its large, planned capex to expand capacity, any execution hiccups could delay revenue and inflate financing costs, impacting profitability in FY26F–28F.

## About Bharat Electronics

Bharat Electronics (BEL) is a Navratna government-owned public sector undertaking under India's ministry of defence. Founded in 1954 in Bengaluru, BEL's core mandate has been to make India self-reliant in defence electronics by meeting the specialized needs of the armed forces. Over seven decades, BEL has become a multi-product, multi-technology conglomerate supplying radars, missile systems, communications gear, electronic warfare (EW) and avionics, C4I infrastructure, electro-optic systems, tank electronics, and other advanced defence electronics. The Government of India remains the largest shareholder (~51.1% stake). In recognition of its strategic importance and performance, BEL has been conferred 'Navratna' status, granting it greater autonomy. Today, the company operates nine manufacturing plants and two R&D units across India, with its headquarters and flagship Bengaluru complex focusing on major systems integration and R&D.

BEL's product mix spans both defence and select civilian sectors. In addition to military radars, weapons and vehicles, its non-defence portfolio includes electronic voting machines, homeland security and smart-city systems, solar power products, space electronics (including satellite integration), rail/metro transit systems, cybersecurity and software services, and other government/infrastructure applications. This diversification helps stabilize revenue, while its core focus remains defence electronics under the Make-in-India and Atmanirbhar Bharat initiatives.

## Strategic business units ➤

BEL is organized into numerous strategic business units (SBUs), each responsible for a product/technology domain. The key SBUs and their focus areas are summarized below:

**Figure 50: BEL's SBUs**

Strategic Business Unit (SBU)	Core Focus Area
Software	Software systems for defence and government (navigation, embedded software, digital communications, etc.)
Export Manufacturing	Manufacture of electronics systems for export (e.g. space and energy products).
Seeker (RF & IR)	Development of RF/infrared seekers for missile guidance and surveillance.
Military Communication	Military radio and communication equipment (HF/VHF radios, troposcatter, encryption, datacom systems).
Strategic Communication	Satellite and long-range communications systems for defence
Network & Cyber Security	C4I networks, cybersecurity products and services, network-centric warfare solutions
Electronic Warfare & Avionics	Airborne/land-based EW systems and avionics, including missile-warning systems and EW pods.
Weapon Systems	Weapon electronic systems (e.g. weapon control, launchers, telemetry)
Military Radars	Land-based surveillance and fire-control radars (surveillance, fire-control, tracking radars).
Naval Systems – Sonar & Communications	Sonar and underwater communications systems for naval platforms.
Naval Systems – Radar & Fire Control	Naval shipboard radars and fire-control tracking systems.
Missile Systems	Missile ground and launch control systems (e.g. launchers, instrumentation)
Unmanned Systems	Unmanned aerial, ground or underwater vehicle systems and associated controls
Arms & Ammunition	Warhead, fuses and ammunition development and manufacturing
Components	Electronic component manufacturing (microwave tubes, semiconductor devices, batteries, etc.).
Advanced Defence Systems (Navy)	Specialized naval weapons (e.g. torpedoes, ASW systems, advanced naval systems).
Homeland Security & Smart City	Homeland security sensors (CCTV, perimeter security) and smart infrastructure solutions.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BEL's SBUs thus cover the full spectrum of defence electronics. For example, its communications and radar SBUs produce military radios and radars for army/air force/navy; the EW SBU develops jammers and missile-approach warning; the Tactical Systems unit focuses on missiles and weapon electronics; and the Homeland Security SBU supplies surveillance and e-governance systems.

## Major R&D centres and manufacturing units ➤

BEL's R&D and manufacturing footprint spans across the country. Major R&D centres and manufacturing facilities include:

**Figure 51: Facilities spread across India**

Facility / Unit	Location (State)	Specialty Focus
Central Research Laboratory (CRL)	Bengaluru (Karnataka)	Advanced R&D in signal processing, radars, communications, EW and electro-optics.
Central Research Laboratory (CRL)	Ghaziabad (Uttar Pradesh)	R&D in radars, antennas, communication systems, microwave components
BEL Software SBU R&D Centre	Ghaziabad (Uttar Pradesh)	Development of defence software, networking and cybersecurity solutions.
Product Development & Innovation Centre (PDIC)	Bengaluru (Karnataka)	System prototyping and miniaturized electronics R&D (sensors, microelectronics).
Centre of Excellence – Comm. Systems	(Co-located in Bengaluru)	Technology development for next-gen communication systems (RF, satellite, networking).
Centre of Excellence – EW & Photonics	(Co-located in Bengaluru)	R&D in electronic warfare (jammers, radar EW) and photonics (lasers, optronics).

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 52: Manufacturing units**

Manufacturing Unit	Location (State)	Specialty Focus
Bengaluru Complex	Karnataka	Broad range: radars (land/airborne), missile systems, UAVs, EW systems, laser & electro-optic devices, strategic communications, coastal surveillance, EVMs and solar solutions.
Ghaziabad Unit	Uttar Pradesh	High-power radar and antenna manufacturing, network-centric defence systems, defence satellite communications, and microwave sub-systems.
Pune Unit	Maharashtra	Laser systems (rangefinders, targeting), combat systems, electronic fuses/ammunition, secure communications and other battlefield systems.
Machilipatnam Unit	Andhra Pradesh	Electro-optics R&D and manufacturing (night-vision devices, night-sights and other photonic sensors).
Panchkula Unit	Haryana	Military communication equipment and encryption products (secure radios, troposcatter systems).
Chennai Unit	Tamil Nadu	Armoured vehicle electronics: tank fire-control systems, gun-launcher control electronics and optical fire-control devices.
Kotdwara Unit	Uttarakhand	Military and telecom communication systems: HF/VHF transceivers, junction equipment, battlefield telephony.
Hyderabad Unit	Telangana	Electronic warfare systems manufacturing (radar warning receivers, jammers, missile approach warning, etc.).
Navi Mumbai (Taloja) Unit	Maharashtra	System shelters, mobile shelters for radars/communication, homeland security systems (border-security electronic products).

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Each manufacturing complex also hosts in-house R&D labs to develop and test its product lines. BEL's R&D centers – especially CRL Bengaluru/Ghaziabad – work closely with the manufacturing units to design and innovate key systems. In FY21–22, BEL invested ~5% of its turnover in R&D, and actively collaborates with DRDO and academic labs on new technologies.

## Key partnerships, JVs and MoUs ➤

BEL has forged numerous strategic alliances and joint ventures, both domestic and international:

- **DRDO and public sector R&D** – BEL maintains close collaborative R&D ties with DRDO laboratories and other government institutes. It has formal alliances with DRDO laboratories and national research centres to co-develop radars, missiles, communication systems and other defence technologies.
- **BEL-Thales Systems (BTSL)** – A 2014 JV with Thales (74% BEL, 26% Thales) to design and produce advanced radars. BTSL is developing multi-target tracking radars and air-traffic management radars leveraging Thales' technology.
- **Airbus defence & space** – In 2021, BEL won a major contract under India's C295 troop transport program to manufacture radar-warning and missile-approach warning systems for Airbus aircraft. This 'Make in India' export order is BEL's largest-ever, demonstrating close Indo-French collaboration.
- **Safran Electronics & Defence** – In Feb 2025, BEL and Safran signed an MoU to establish a JV in India for HAMMER smart precision-guided weapons (air-to-ground missile) production. The pact includes technology transfer and a Centre of Excellence for smart munitions.
- **Other international technology partners** – BEL has had long-standing technology tie-ups with foreign OEMs. For example, it has collaborated with Oerlikon Contraves (Switzerland), Norcontrol (Norway), Northrop Grumman (USA), Elta/Elbit (Israel), Matra/Thomson (France), Ericsson (Sweden), among others. These alliances have provided BEL access to advanced designs (e.g. EW systems, sensors, naval guns) to adapt for Indian needs.
- **Domestic JVs and MoUs** – BEL has joint ventures such as BEL Optronic Devices (formed with Dutch partners for night-vision) and holds manufacturing ties (e.g. fuse plants with DRDO in Hyderabad). It regularly signs MoUs with

DRDO labs and Indian defence companies to co-develop systems (e.g. integrated command-and-control, testing infrastructure).

These partnerships bolster BEL's technology base and help localize critical capabilities in line with India's defence modernization. For institutional investors, BEL's collaborations with DRDO, French companies (Thales, Airbus, Safran) and other global players are a key part of its growth strategy and risk profile.

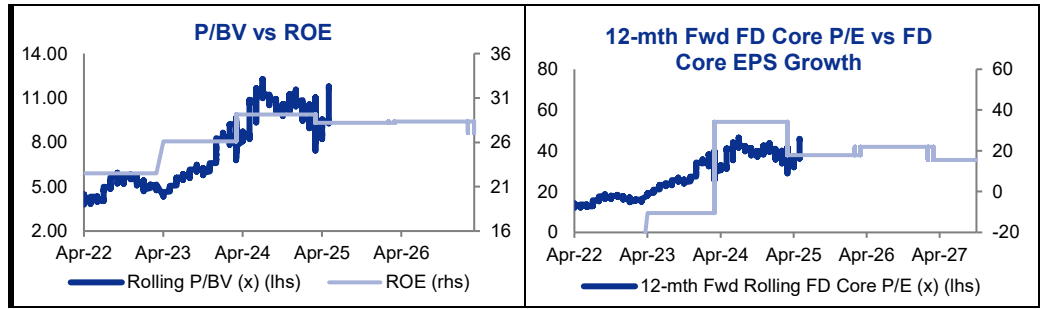
## Management ➤

**Figure 53: Key management personnel**

Name	Designation	
Manoj Jain	Chairman & Managing Director	Took charge as CMD on 20 Jun 2024. An electronics engineering gold-medalist (MNIT Jaipur), he joined BEL in 1991 and has spent over 30 years in development and R&D roles. Prior to becoming CMD, he served as Director (R&D) and headed BEL's electronic warfare & avionics business unit, also holding additional charge of Director (Bengaluru Complex) and Director (HR). During his tenure he has overseen major defence electronics projects and earned multiple R&D awards. In his current role, he leads BEL's overall strategy and operations, drawing on his deep technical and management experience.
Damodar Bhattad	Director, Finance	Assumed charge on 11 Jan 2023. A Chartered Accountant (All-India Rank, ICAI) with a B.Com degree from Madras University, he joined BEL in 1988 and has a 34+ year career there. As Finance Director, he manages BEL's financial strategy, controls and reporting. He played a key role in BEL achieving a record turnover (~Rs1,50,440m in FY22) and a ~Rs5,00,000m order book, while efficiently managing working capital to keep the company debt-free. His prior roles included Head of Finance at BEL's corporate office, where he led policy formulation and financial planning.
Kaipa Venkata Suresh Kumar	Director, Marketing	Took charge on 16 Jun 2023. A postgraduate in Electronics & Communication, he joined BEL in 1989 and has spent 34+ years in R&D, product development and indigenization roles. He formerly served as General Manager of BEL's Product Development & Innovation Centre and as Chief Indigenization Officer. As Marketing Director, he now leads business development, exports and customer engagement. He has driven major export contracts and new opportunities for BEL (for example, securing a ~US\$90m EW suite order) and has overseen patent generation and indigenization initiatives.
Hari Kumar R	Director, R&D	Assumed charge on 2 May 2025. A B.Tech (Electronics & Communication) graduate, he joined BEL in 1989 and has over 35 years in development & engineering functions. He led teams that built India's first C-band low-noise amplifiers and GaN-based radar/satellite transmittersbel-india.in, and during the 2020 COVID-19 crisis he oversaw BEL's rapid ICU ventilator development and certification. In his current role as R&D Director, he heads BEL's research agenda and new-product development, guiding technology strategy and innovation.

SOURCES: COMPANY REPORTS, INCRED RESEARCH

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Net Revenues</b>	<b>202,682</b>	<b>237,687</b>	<b>278,056</b>	<b>326,199</b>	<b>381,701</b>
<b>Gross Profit</b>	<b>96,919</b>	<b>115,815</b>	<b>134,964</b>	<b>158,331</b>	<b>183,362</b>
<b>Operating EBITDA</b>	<b>50,464</b>	<b>68,338</b>	<b>79,801</b>	<b>96,879</b>	<b>111,455</b>
Depreciation And Amortisation	(4,432)	(4,673)	(5,518)	(6,231)	(6,985)
<b>Operating EBIT</b>	<b>46,032</b>	<b>63,665</b>	<b>74,283</b>	<b>90,648</b>	<b>104,469</b>
Financial Income/(Expense)	(71)	(96)	(112)	(132)	(154)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	6,701	7,423	9,504	11,476	13,429
<b>Profit Before Tax (pre-EI)</b>	<b>52,662</b>	<b>70,992</b>	<b>83,675</b>	<b>101,993</b>	<b>117,744</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>52,662</b>	<b>70,992</b>	<b>83,675</b>	<b>101,993</b>	<b>117,744</b>
Taxation	(13,231)	(18,118)	(21,355)	(26,030)	(30,050)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>39,431</b>	<b>52,874</b>	<b>62,320</b>	<b>75,963</b>	<b>87,694</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>39,431</b>	<b>52,874</b>	<b>62,320</b>	<b>75,963</b>	<b>87,694</b>
Recurring Net Profit	39,431	52,874	62,320	75,964	87,695
<b>Fully Diluted Recurring Net Profit</b>	<b>39,431</b>	<b>52,874</b>	<b>62,320</b>	<b>75,964</b>	<b>87,695</b>

### Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>EBITDA</b>	<b>50,464</b>	<b>68,338</b>	<b>79,801</b>	<b>96,879</b>	<b>111,455</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,045)	(47,102)	(9,210)	(53,536)	(20,137)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	982	1,200	2,224	2,936	3,435
<b>Other Operating Cashflow</b>	<b>11,998</b>	<b>(135)</b>			
Net Interest (Paid)/Received					
Tax Paid	(14,184)	(16,746)	(21,355)	(26,030)	(30,050)
<b>Cashflow From Operations</b>	<b>46,216</b>	<b>5,555</b>	<b>51,460</b>	<b>20,250</b>	<b>64,704</b>
Capex	(6,440)	(10,082)	(10,426)	(10,370)	(10,915)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(52,800)	16,251	(1,180)	4,474	5,305
<b>Cash Flow From Investing</b>	<b>(59,240)</b>	<b>6,169</b>	<b>(11,606)</b>	<b>(5,896)</b>	<b>(5,610)</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(14,621)	(16,807)	(19,810)	(24,146)	(27,875)
Preferred Dividends					
Other Financing Cashflow	(129)	(155)	3,024	2,275	2,621
<b>Cash Flow From Financing</b>	<b>(14,750)</b>	<b>(16,962)</b>	<b>(16,786)</b>	<b>(21,871)</b>	<b>(25,254)</b>
Total Cash Generated	(27,774)	(5,238)	23,068	(7,517)	33,840
<b>Free Cashflow To Equity</b>	<b>(13,024)</b>	<b>11,724</b>	<b>39,854</b>	<b>14,354</b>	<b>59,094</b>
<b>Free Cashflow To Firm</b>	<b>(13,024)</b>	<b>11,724</b>	<b>39,854</b>	<b>14,354</b>	<b>59,094</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS



## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	110,566	95,450	118,520	111,003	144,843
Total Debtors	73,924	91,163	106,646	129,586	151,635
Inventories	74,469	91,189	106,677	125,147	146,440
Total Other Current Assets	81,671	70,773	82,793	134,967	157,932
<b>Total Current Assets</b>	<b>340,630</b>	<b>348,575</b>	<b>414,636</b>	<b>500,703</b>	<b>600,850</b>
Fixed Assets	39,289	44,708	49,617	53,756	57,685
Total Investments	5,307	5,816	6,804	7,982	9,340
Intangible Assets					
Total Other Non-Current Assets	10,041	9,211	16,683	19,572	22,902
<b>Total Non-current Assets</b>	<b>54,637</b>	<b>59,735</b>	<b>73,104</b>	<b>81,309</b>	<b>89,927</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	37,063	33,387	39,058	45,820	53,616
Other Current Liabilities	176,259	156,739	183,593	215,381	252,027
<b>Total Current Liabilities</b>	<b>213,322</b>	<b>190,126</b>	<b>222,651</b>	<b>261,201</b>	<b>305,644</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	11,501	10,767	13,903	16,310	19,085
<b>Total Non-current Liabilities</b>	<b>11,501</b>	<b>10,767</b>	<b>13,903</b>	<b>16,310</b>	<b>19,085</b>
Total Provisions	6,945	7,397	8,653	10,152	11,879
<b>Total Liabilities</b>	<b>231,768</b>	<b>208,290</b>	<b>245,207</b>	<b>287,662</b>	<b>336,608</b>
Shareholders Equity	163,265	199,739	242,249	294,066	353,885
Minority Interests					
<b>Total Equity</b>	<b>163,265</b>	<b>199,739</b>	<b>242,249</b>	<b>294,066</b>	<b>353,885</b>

### Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	14.3%	17.3%	17.0%	17.3%	17.0%
Operating EBITDA Growth	23.5%	35.4%	16.8%	21.4%	15.0%
Operating EBITDA Margin	24.9%	28.8%	28.7%	29.7%	29.2%
Net Cash Per Share (Rs)	15.13	13.06	16.21	15.19	19.81
BVPS (Rs)	22.34	27.32	33.14	40.23	48.41
Gross Interest Cover	644.71	663.18	661.44	688.04	677.64
Effective Tax Rate	25.1%	25.5%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	37.1%	31.8%	31.8%	31.8%	31.8%
Accounts Receivables Days	129.89	126.76	129.83	132.17	134.46
Inventory Days	239.76	248.07	252.36	252.03	249.90
Accounts Payables Days	(121.42)	(105.50)	(92.40)	(92.28)	(91.50)
ROIC (%)	69.7%	54.5%	53.1%		
ROCE (%)	30.5%	35.1%	33.6%	33.8%	32.2%
Return On Average Assets	10.6%	13.2%	13.9%	14.2%	13.8%

### Key Drivers

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Order backlog (Rs m)	759,340	716,500	1,008,444	982,245	1,300,543
Order inflows (Rs m)	350,460	194,847	570,000	300,000	700,000
Book to bill ratio (%)	33	31	39	32	39

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## 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.