

India

Overweight (no change)

Highlighted Companies

Hindustan Aeronautics

ADD, TP Rs2500, Rs1968 close

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

Bharat Electronics

ADD, TP Rs140, Rs138 close

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

Data Patterns (India)

ADD, TP Rs3000, Rs2063 close

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

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Hindustan Aeronautics	36.26	30.84	25.92
Bharat Electronics	43.01	33.6	29.62
Data Patterns (India)	113.93	93.14	58.75

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Hindustan Aeronautics	6.83	5.6	4.85
Bharat Electronics	8.43	7.44	6.52
Data Patterns (India)	18.63	9.9	8.66

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Hindustan Aeronautics	1.02%	1.27%	1.11%
Bharat Electronics	1.01%	1.3%	1.48%
Data Patterns (India)	0.15%	0.17%	0.26%

Aerospace & Defence

2QFY24 results preview

- We expect a steady performance from Data Patterns (+36% yoy), BEL (+16% yoy) and HAL (+6% yoy) while muted execution is likely in the case of BDL.
- 2QFY24 witnessed a strong inflow of new orders, with BEL and BDL securing orders worth Rs62bn and more than Rs3bn, respectively.
- Our outlook on the sector remains positive, and we maintain our Overweight rating on it. Our preferred stocks in the sector are HAL, BEL and Data Patterns.

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

After the Rs265bn order inflow in FY23, Hindustan Aeronautics or HAL's new orders may remain muted in 1HFY24F. 2QFY24F sales may be driven primarily by the Repair and Overhaul (R&O) segment & some manufacturing revenue from platforms such as Advanced Light Helicopter (ALH) & Light Combat Helicopter (LCH). We expect its EBITDA margin at 29%, similar yoy. Higher other income yoy due to strong net cash position to lift PAT growth.

Bharat Electronics: Order win momentum continues in 2QFY24

After a strong order inflow of Rs81bn in 1QFY24, the new order win momentum continued in 2QFY24 (Rs62bn). We expect a 16% yoy growth in sales, primarily driven by increased execution of significant orders and alleviation of supply chain challenges. The EBITDA margin is expected to remain consistent compared to the previous year. Management commentary on order pipeline and working capital needs are key monitorable. Bharat Electronics or BEL's order book (OB) as of 1QFY24-end was at Rs654bn (3.7x TTM sales).

Data Patterns: Higher production revenue to aid growth

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


Bharat Dynamics: Supply chain problem persists

Bharat Dynamics (BDL) has secured orders worth Rs3bn for the supply of surface-to-air missiles for the Indian Air Force or IAF. We expect new order wins to ramp up in 2HFY24F, aided by a robust order pipeline. We expect execution to pick up in 2HFY24F, driven by high order backlog and the completion of delayed projects. We expect the EBITDA margin at ~14-16% in 2QFY24F, which can be attributed to persistent supply chain challenges. Management's commentary on realization of large orders for future programs is crucial. As of Jun 2023-end, BDL's order book stood at Rs202bn (8.2x FY23 sales).

Maintain Overweight rating on the aerospace and defence sector

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

Analyst(s)



Dipen VAKIL
 T (91) 22 4161 1551
 E dipen.vakil@incredcapital.com

Figure 1: 2QFY24F earnings of companies under our coverage

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
Bharat Electronics	45,772	16	30	9,841	15	48	7,167	17	35
Hindustan Aeronautics	54,536	6	39	16,143	0	84	12,012	-1	48
Bharat Dynamics	5,401	1	81	864	-8	-365	879	16	110
Data Patterns	1,200	36	34	433	44	56	329	56	27

SOURCE: INCRED RESEARCH, COMPANY REPORTS

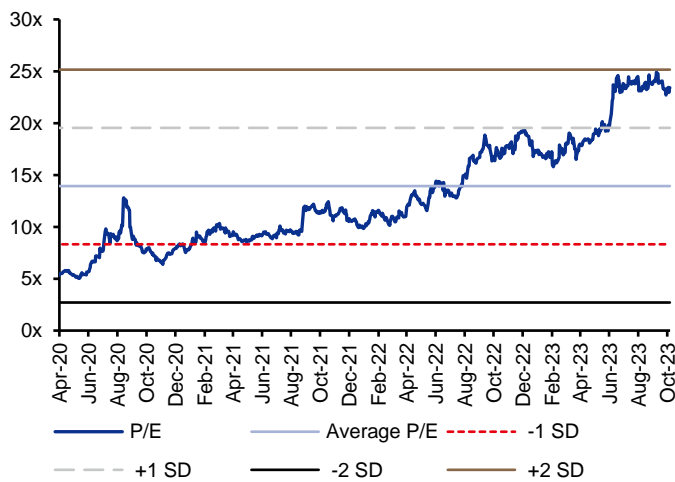
2QFY24 results preview

Figure 2: 2QFY24F financials of companies under our coverage

Company	2QFY24F	2QFY23	yoy %	1QFY24	qoq %	Comments
Bharat Electronics						
Sales (Rs m)	45,772	39,458	16.0	35,108	30.4	We expect a 16% yoy growth in sales, led by execution pick-up and easing supply chain challenges. The EBITDA margin is expected to remain consistent yoy. Management commentary on the order pipeline and working capital requirement are key monitorable.
EBITDA (Rs m)	9,841	8,558	15.0	6,644	48.1	
EBITDA margin %	21.5	21.7		18.9		
Adj. PAT (Rs m)	7,167	6,111	17.3	5,308	35.0	
Hindustan Aeronautics						
Sales (Rs m)	54,536	51,449	6.0	39,153	39.3	We expect its sales to grow by 6% yoy in 2QFY24F, driven by strong execution in the services (R&O) segment and some deliveries of manufacturing orders. We expect the EBITDA margin at 29%, which is flat yoy. Higher other income yoy due to strong net cash position is likely to boost PAT growth.
EBITDA (Rs m)	16,143	16,100	0.3	8,796	83.5	
EBITDA margin %	29.6	31.3		22.5		
Adj. PAT (Rs m)	12,012	12,092	(0.7)	8,142	47.5	
Bharat Dynamics						
Sales (Rs m)	5,401	5,348	1.0	2,977	81.4	We expect muted revenue growth in 2QFY24F due to persistent supply chain problems and unavailability of certain critical components. We expect the EBITDA margin at 16% in 2QFY24F. Management commentary on realization of large orders in respect of future programs is key monitorable.
EBITDA (Rs m)	864	938	(7.9)	(327)		
EBITDA margin %	16.0	17.5		(11.0)		
Adj. PAT (Rs m)	879	758	15.9	418	110.2	
Data Patterns						
Sales (Rs m)	1,200	882	36.1	897	33.8	We expect the robust execution to continue and the EBITDA margin at 36% to remain similar yoy. Higher other income yoy due to strong net cash position will boost PAT growth. New order win momentum is likely to continue as several orders were in advanced stage of negotiations as of Jul 2023-end.
EBITDA (Rs m)	433	302	43.6	278	55.6	
EBITDA margin %	36.1	34.2		31.0		
Adj. PAT (Rs m)	329	211	56.3	258	27.4	

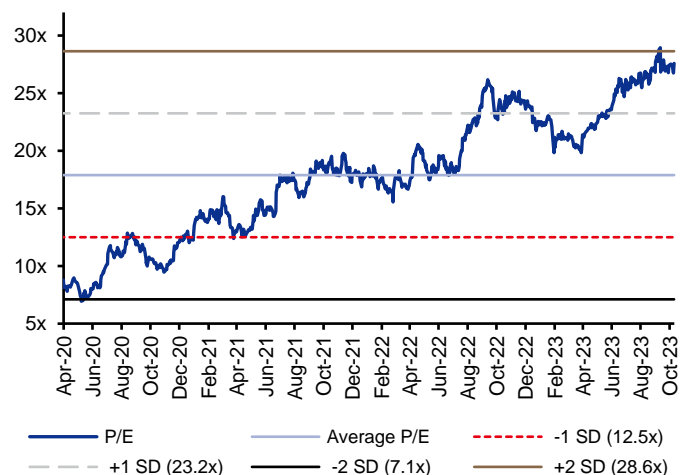
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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