

India

Overweight (no change)**Highlighted Companies****Data Patterns (India)****ADD, TP Rs3000, Rs2806 close**

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

Bharat Electronics**ADD, TP Rs235, Rs233 close**

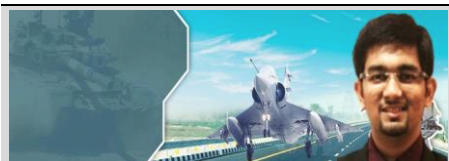
Electronics account for around 40% of modern warfare leading platforms, where Bharat Electronics is a dominant player in India. Its strong order backlog and the traction in exports, we feel, will drive near-term sales while large orders in the pipeline to aid medium-term growth.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Data Patterns (India)	79.91	54.72	41.43
Bharat Electronics	43.73	39.46	33.88

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Data Patterns (India)	11.78	9.97	8.28
Bharat Electronics	10.75	9.27	7.99

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Data Patterns (India)	0.19%	0.28%	0.37%
Bharat Electronics	0.95%	1.05%	1.22%

Research Analyst(s)**Dipen VAKIL**

T (91) 22 4161 1551

E dipen.vakil@incredresearch.com

Vipraw SHRIVASTAVA

T (91) 22 4161 1565

E vipraw.srivastava@incredresearch.com

Aerospace & Defence

4QFY24 results preview

- We expect a steady performance from Data Patterns (+41% yoy), BEL (+29% yoy), HAL (+14% yoy) and BDL (+12% yoy) as execution picks up in 4Q.
- BEL witnessed a strong inflow of new orders as it won orders worth over Rs74bn in 4QFY23, taking the total order wins to ~Rs350bn in FY24.
- With strong order pipeline & execution visibility, we remain cautiously optimistic & maintain our Overweight rating, with Data Patterns & BEL as our top picks.

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

After the Rs265bn order inflow in FY23, Hindustan Aeronautics or HAL's reported strong new order wins worth over Rs350bn in FY24. 4QFY24F sales may be driven primarily by the Repair and Overhaul (R&O) segment & some manufacturing revenue from platforms such as Light Combat Aircraft (LCA) and Advanced Light Helicopter (ALH). We expect its EBITDA margin to be at 30%, up yoy, due to a favourable product mix and lower provision. Higher other income yoy because of a strong net cash position to lift PAT growth.

Bharat Electronics: Robust orderbook sets stage for strong FY25F

The new order win momentum continued in 4QFY24 (Rs74bn), bringing total new order wins to over Rs350bn in FY24. We expect a 29% yoy growth in sales, primarily driven by increased execution of significant orders. The EBITDA margin is expected to remain consistent compared to the previous year. Management commentary on the order pipeline & the impact of supply chain issues are key monitorables. Bharat Electronics' order book (OB) stands at a healthy Rs760bn as of 1 April 2024 (~3.9x FY24 sales).

Data Patterns: Higher production revenue to aid growth

Data Patterns won new orders worth Rs3.7bn in 9MFY24. 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 3QFY24-end stood at Rs9.6bn (1.8x TTM sales). We expect the robust execution to continue and the EBITDA margin at 41% (similar yoy). Higher other income yoy because of a strong net cash position to boost PAT growth.

Bharat Dynamics: Another year of sales decline

Bharat Dynamics reported provisional revenue of Rs23.5bn (decline of ~5% yoy). The reduction in sales is attributed largely due to the current geopolitical situation prevailing in Europe and the Middle East. New order wins remained tepid in FY24, with new orders worth just ~Rs18bn in FY24 (vs. Rs123bn in FY23). We expect the order execution to pick up in FY25F, driven by the high order backlog and the completion of delayed projects. We expect the EBITDA margin at ~18% in 4QFY24F. Management's commentary on execution plan and realization of large orders in the pipeline is crucial. As of Mar 2024-end, BDL's order book stood at Rs195bn (8.3x FY24F sales).

Maintain Overweight rating on the aerospace and defence sector

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

Figure 1: 4QFY24F earnings of companies under our coverage universe

(Rs m)	Revenue	yoy %	qoq %	EBITDA	yoy %	qoq %	Adj. PAT	yoy %	qoq %
Bharat Electronics	83,137	29	101	22,639	24	116	18,051	32	102
Hindustan Aeronautics	1,41,967	14	134	43,047	33	200	30,916	79	147
Bharat Dynamics	8,950	12	49	1,781	-3	50	1,911	25	42
Data Patterns	2,609	41	87	1,070	46	78	839	52	65

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 results preview

Figure 2: 4QFY24F financials of companies under our coverage

Company	4QFY24F	4QFY23	yoy %	3QFY24	qoq %	Comments
Bharat Electronics						
Sales (Rs m)	83,137	64,566	28.8	41,367	101.0	We expect a 29% yoy growth in sales, led by execution pick-up. The EBITDA margin is expected to remain consistent yoy. Management commentary on the order pipeline and impact of supply chain challenges are key monitorable.
EBITDA (Rs m)	22,639	18,248	24.1	10,494	115.7	
EBITDA margin %	27.2	28.3		25.4		
Adj. PAT (Rs m)	18,051	13,655	32.2	8,933	102.1	
Hindustan Aeronautics						
Sales (Rs m)	1,41,967	1,24,946	13.6	60,609	134.2	We expect its sales to grow by 14% yoy in 4QFY24F, driven by strong execution in the services (R&O) segment and some deliveries of manufacturing orders. We expect the EBITDA margin at 30%, which is higher yoy. Higher other income yoy due to strong net cash position is likely to boost PAT growth.
EBITDA (Rs m)	43,047	32,424	32.8	14,341	200.2	
EBITDA margin %	30.3	26.0		23.7		
Adj. PAT (Rs m)	30,916	17,258	79.1	12,535	146.6	
Bharat Dynamics						
Sales (Rs m)	8,950	7,982	12.1	6,016	48.8	We expect revenue growth in 4Q due to lower base yoy as we expect uptick in BDL's execution. We expect the EBITDA margin at 20% in 4QFY24F. Management commentary on realization of large orders, availability certain critical components and supply chain challenges remain key monitorable.
EBITDA (Rs m)	1,781	1,834	(2.9)	1,187	50.0	
EBITDA margin %	19.9	23.0		19.7		
Adj. PAT (Rs m)	1,911	1,527	25.1	1,350	41.6	
Data Patterns						
Sales (Rs m)	2,609	1,851	40.9	1,395	87.0	We expect robust execution to continue and EBITDA margin at 41% to remain similar yoy. Higher other income yoy due to strong net cash position to boost PAT growth. New order wins momentum is expected to continue as several orders were in advanced stages of negotiation as of Dec 2023-end.
EBITDA (Rs m)	1,070	734	45.8	600	78.2	
EBITDA margin %	41.0	39.6		43.0		
Adj. PAT (Rs m)	839	554	51.6	510	64.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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