

## **THEMATIC INVESTING**

# **DEFENCE SECTOR STOCKS**





## **Hindustan Aeronautics Ltd**

CMP (Rs): 3005

Buy Range: 2980-3020

Target Price: 3756

Upside: 25%



## **Bharat Electronics Ltd**

CMP (Rs): 195

Buy Range: 198-200

Target Price: 250

Upside: 25%



## **Astra Microwave Products**

CMP (Rs): 640

Buy Range: 635-640

Target Price: 740

Upside: 15%



## Company Name: Hindustan Aeronautics Ltd

BSE CODE: 541154

NSE CODE: HAL

Sector: Aerospace &amp; Defence

Industry: Engineering

**CMP (Rs): 3005 | Buy Range: 2980-3020 | Target Price: 3756 | Upside: 25%**
**Duration of Recommendation: 8 - 12 months**

### Company Data

Market Cap (Rs Cr)	2,04,140
Enterprise value (Rs Cr)	1,82,759
52-Week High/Low (Rs)	3132/1238
EPS (TTM) (Rs)	91.90
P/E Ratio (x)	33
Industry PE (x)	71.6
EV/EBITDA (x)	19.8
P/PB (x)	8.14

Shareholding %	Q1FY24	Q2FY24	Q3FY24
Promoters	71.64	71.64	71.64
FII's	11.90	12.63	12.93
DII's	10.64	9.72	9.13
Public	5.81	6.02	6.28
Govt	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Pledged	0.00	0.00	0.00

### Financial Performance (Consolidated)

INR (Cr)	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>26,927</b>	<b>29,216</b>	<b>32,576</b>	<b>38,113</b>
Growth (%)	9.4%	8.5%	11.5%	17.0%
EBITDA	6,686	7,158	8,014	9,376
EBITDA growth	23.5%	7.1%	12.0%	17.0%
EBITDA margin	24.8%	24.5%	24.6%	24.6%
<b>Net Profit</b>	<b>5,828</b>	<b>6,194</b>	<b>7,300</b>	<b>8,537</b>
Profit growth	10.4%	10.4%	17.9%	16.9%
Profit margins	21.6%	21.2%	22.4%	22.4%
EPS	87.1	92.6	109.2	127.7
BVPS	352.5	420.3	501.1	597.5
P/E (x)	15.7	32.7	37.0	23.7
P/BV(x)	3.9	7.2	6.0	5.1
ROE (%)	27.2%	26.7%	28.2%	28.2%
RoCE	22.8%	20.9%	18.7%	18.0%
EV/EBITDA(x)	10.40	24.96	24.53	23.06

Source: Company, Share India Securities

### Price Performance



**Our Recommendation:** HAL will be the back-bone of India's growing Air Power & air defense given, 1), being the only supplier of military aircrafts, 2) long-term sustainable demand opportunity due to Govt's "Make in India" push & indigenization, 3) increase in HAL's technological capabilities, 4) strong order book worth 84,000 crores which is estimated to reach more than 2 lakh crore by FY26. Stock is currently trading at 23x its FY26E EPS. **We recommend BUY in price range of 2980-3020 with target price of 3756 (based on 29.4x FY26E EPS) with upside 25%.**

**About Company:** Hindustan Aeronautics Limited (HAL) designs, manufactures, and services aerospace products, including aircraft, helicopters, and avionics. It collaborates with foreign partners for technology transfer. HAL primarily serves the Indian Defense Services, exports globally, and aims to enhance its international footprint.

### Increasing Demand for Modern Indigenous Military Aircraft:

- India's fighter jet squadrons are below the sanctioned total of 42 for a potential two-front war, exacerbated by retiring aircraft. HAL's monopoly in defense aerospace, coupled with the government's push for indigenous aircraft, positions the company for long-term demand with projects replacing aging fleets.
- DAC approved for 97 additional Tejas Mk1A aircraft, 156 LCH Prachand helicopters & upgradation of 84 Su-30MKI fighters by HAL.
- Recently, DAC approved contracts worth 84,560 crores for enhancing India's overall defence requirements and infrastructure.

**Robust Order Book:** HAL has a strong Rs. 84,000 crore order book (3x TTM revenues), which is expected to reach more than 2 Lakh core till FY26 aided by GOI's "Make in India" support that leads to continuous orders inflow.

**Strong Financial Performance:** Over FY18-23 period, Sales/EBITDA/PAT has grown at CAGR of 29.7%/30.2%/30% respectively from Rs.141 cr/31 cr/24 cr to Rs. 517 cr/112.6 cr/89.6 cr respectively. EBITDA margins hover around 18% to 22%. Five-year average ROE/ROCE are 19.4%/23% respectively. Company's leverage position is 1.2x and is almost debt free with D/E 0.00%.

### Q3FY24 Results:

- ❖ Consolidated revenue up by 7% YoY to ₹ 6061 Cr from ₹ 5666 Cr.
- ❖ EBITDA up by 45.7% YoY to ₹ 1435 Cr from ₹ 985 cr with 629 bps improvment in margins to 23.7% from 17.4%.
- ❖ Net Profit increased by 9% YoY to ₹ 1262Cr from ₹ 1155 Cr.
- ❖ On QoQ basis, Sales, EBITDA, Net Profit were +7.6%/-6.0%/+2% respectively.

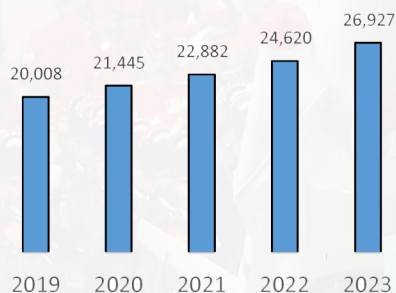
### Key Risks:

- Heavy reliance on Govt's funding.
- Slow execution of project impact revenue growth.

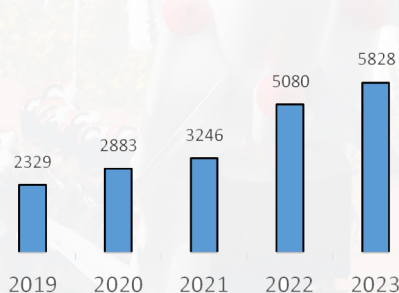
## Company Name - Hindustan Aeronautics Ltd

## Financial Story In Charts

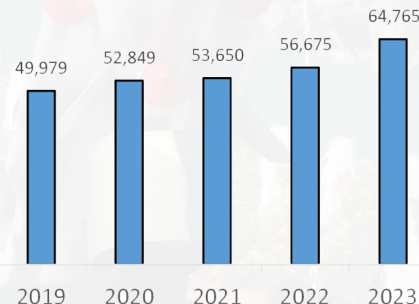
### Revenues (INR Cr)



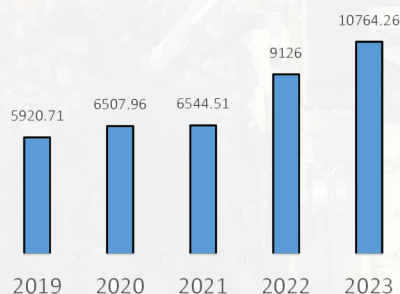
### Net Profit (INR Cr)



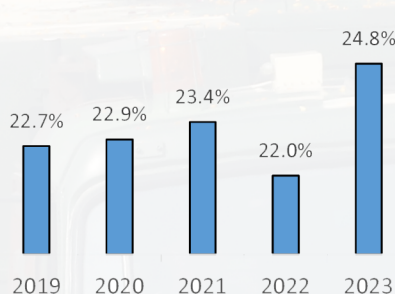
### Total Assets (INR Cr)



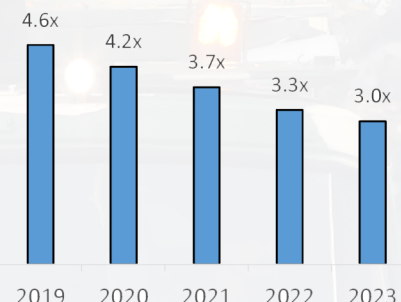
### EBITDA (INR Cr)



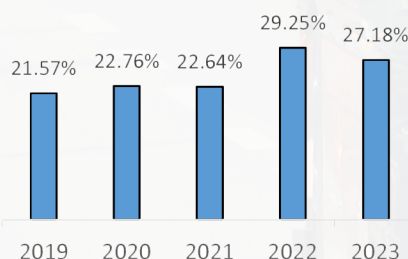
### EBITDA Margin (%)



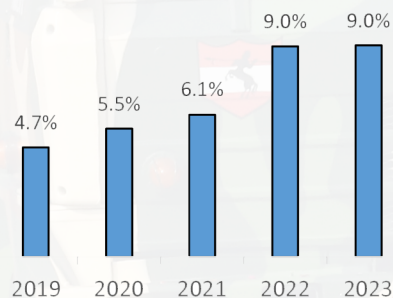
### Financial Leverage



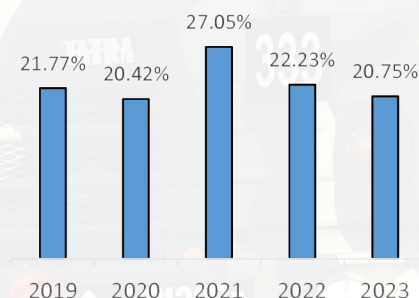
### Return on Equity (%)



### Return on Assets (%)



### Return on Capital Employed (%)





## Company Name: Bharat Electronics Ltd

BSE CODE: 500049

NSE CODE: BEL

Sector: Aerospace &amp; Defence

Industry: Electric components

**CMP (Rs): 195 | Buy Range: 198-200 | Target Price: 250 | Upside: 25%**
**Duration of Recommendation: 8 - 12 months**

### Company Data

Market Cap (Rs Cr)	1,48,498
Enterprise value (Rs Cr)	1,40,333
52-Week High/Low (Rs)	204/89.6
EPS (TTM) (Rs)	4.88
P/E Ratio (x)	41.6
Industry PE (x)	59.4
EV/EBITDA (x)	27.5
P/PB (x)	9.96

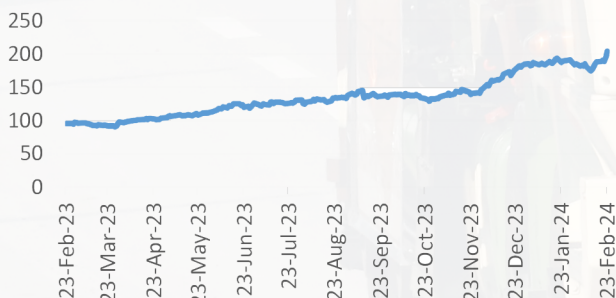
Shareholding %	Q1FY24	Q2FY24	Q3FY24
Promoters	51.14	51.14	51.14
FII's	17.35	17.19	17.77
DII's	24.84	24.19	23.37
Public	6.68	7.49	7.72
Govt	-	-	-
Total	100.0	100.0	100.0
Pledged	0.00	0.00	0.00

### Financial Performance (Consolidated)

INR (Cr)	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>17,734</b>	<b>18,314</b>	<b>21,153</b>	<b>24,537</b>
Growth (%)	15.4%	3.3%	15.5%	16.0%
EBITDA	4,090	4,395	5,182	6,012
EBITDA growth	22.0%	7.5%	17.9%	16.0%
EBITDA margin	23.1%	24.0%	24.5%	24.5%
<b>Net Profit</b>	<b>2,940</b>	<b>3,480</b>	<b>4,125</b>	<b>4,785</b>
Profit growth	10.4%	10.4%	18.5%	16.0%
Profit margins	16.6%	19.0%	19.5%	19.5%
EPS	4.0	4.7	5.6	6.5
BVPS	19.0	21.4	24.3	27.7
P/E (x)	24.4	41.2	37.0	30.0
P/BV(x)	5.1	9.1	8.0	7.0
ROE (%)	22.8%	23.8%	25.2%	26.1%
RoCE	26.3%	24.0%	24.0%	23.0%
EV/EBITDA(x)	0.49	1.42	1.32	1.25

Source: Company, Share India Securities

### Price Performance



**Our Recommendation:** We are optimistic on BEL's future growth prospects due to several factors: Firstly, its robust order backlog and pipeline; secondly, its expansion into non-defense sectors such as metros, civil aviation, and IT infrastructure; thirdly, its emphasis on export markets; and fourthly, the government's push for indigenization in defense. Stock is currently trading at 30x its FY26E EPS. We value the stock at 38x its FY26 EPS owing to robust order inflows & healthy execution outlook. **We recommend BUY in price range of 198-200 with target price of 250 (based on 38x FY26E EPS) with upside 25%.**

**About Company:** Bharat Electronics Ltd manufactures and supplies electronic equipment and systems to the defense sector. Company also has a limited presence in the civilian market. Product portfolio includes products for communication, radars, naval systems, opto electronics, Electronic Warfare systems, weapon system, tank electronics and simulators.

### Investment Rationale:

**Strong R&D and manufacturing capabilities with domain expertise in key defence electronic systems:** Company is well positioned to capture a big chunk of increasing defense indigenisation process in India. Through its domain knowledge & R&D facility, company is producing important electronic equipment like Radar and Fire Control Systems, Weapon Systems, Communication, Network Centric Systems (C4I), Electronic Warfare Systems, Avionics, Anti-Submarine Warfare Systems & Sonars, Electro-Optics, Tank Electronics, Gun Upgrades, Strategic

**Order Book worth ₹76,217 Cr shows revenue visibility:** Q3 order inflow was at ₹11,609 crore & cumulative 9MFY24 order inflow crossed ₹27,000 crores, exceeding the ₹20,000 crore guidance. Current order backlog is at ₹76,217 core (4x FY24 sales), ensuring robust visibility for the next 3-4 years. Management has guided the inflow of ₹50,000 crores worth of orders for FY25 & FY26.

**Consistent Financial Performance:** Over FY18-23 period, Sales/EBITDA/PAT has grown at CAGR of 11%/15%/16% respectively from ₹10,400 cr/2,039 cr/1,431 cr to ₹17,734 cr/4090 cr/2,986 cr respectively. EBITDA margins hover around 23%. Five-year average ROE/ROCE are 21%/28% respectively. Company's leverage position is

### Q3FY24 Results: High profit growth aided by improvement in margins.

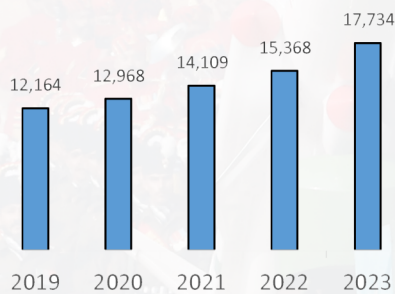
- ❖ Consolidated revenue up by 0.2% YoY to ₹ 4162 Cr from ₹ 4153 Cr.
- ❖ EBITDA up by 24.2% YoY to ₹ 1073 Cr from ₹ 863 Cr with 498 bps improvement in margins to 25.8% from 20.8%.
- ❖ Net Profit increased by 41% YoY to ₹ 848 Cr from ₹ 603 Cr.
- ❖ On QoQ basis, Sales, EBITDA, Net Profit were +3.8%/+3.2%/+5.8% respectively. QoQ, margins improved by 47 bps.

**Key Risks:** 70 percent orders come from Govt; any deviation from "Make in India" plan could impact revenues.

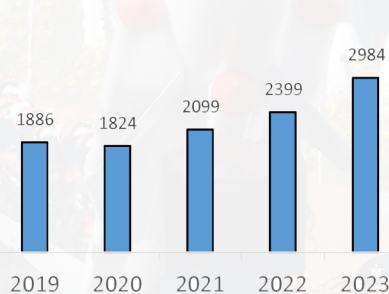
## Company Name - Bharat Electronics Ltd

## Financial Story In Charts

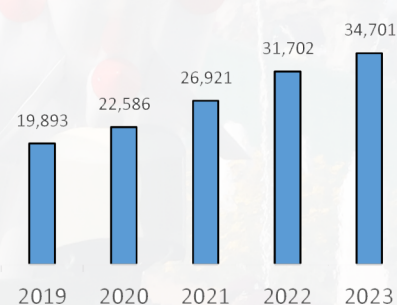
### Revenues (INR Cr)



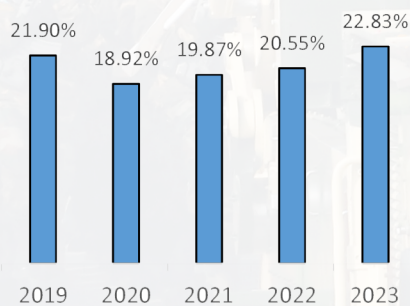
### Net Profit (INR Cr)



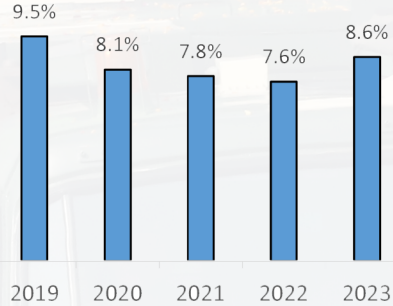
### Total Assets (INR Cr)



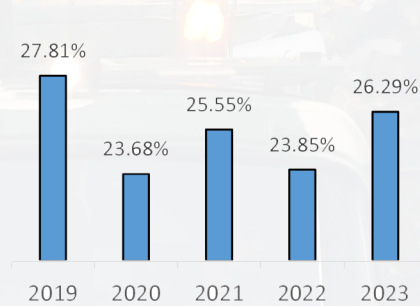
### Return on Equity (%)



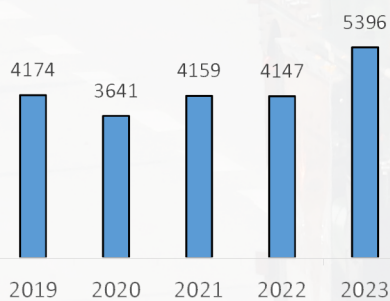
### Return on Assets (%)



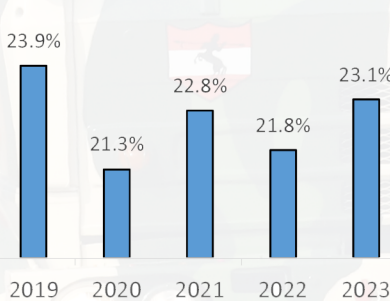
### Return on Capital Employed (%)



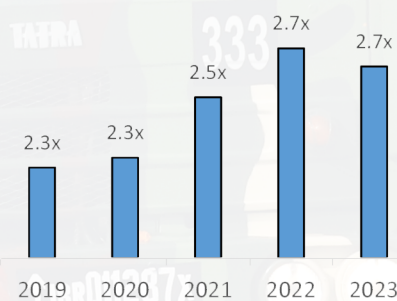
### EBITDA (INR Cr)



### EBITDA Margin (%)



### Financial Leverage





## Company Name: Astra Microwave Products

BSE CODE: 532493

NSE CODE: ASTRAMICRO

Sector: Aerospace &amp; Defence

Industry: Telecommunication

**CMP (Rs): 640 | Buy Range: 635-640 | Target Price: 740 | Upside: 15%**
**Duration of Recommendation: 8 - 12 months**

### Company Data

Market Cap (Rs Cr)	6,100
Enterprise value (Rs Cr)	6,001
52-Week High/Low (Rs)	695/213
EPS (TTM) (Rs)	8.58
P/E Ratio (x)	76.6
Industry PE (x)	77.6
EV/EBITDA (x)	37.3
P/PB (x)	7.06

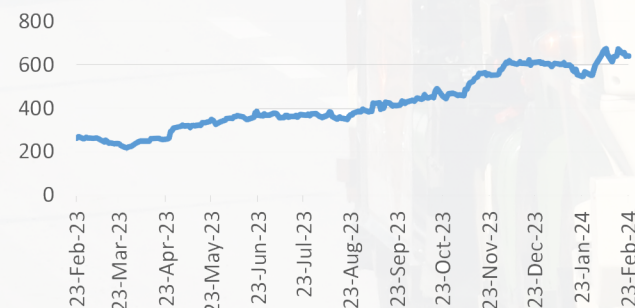
Shareholding %	Q1FY24	Q2FY24	Q3FY24
Promoters	6.54	6.54	6.54
FII's	3.03	1.73	2.94
DII's	9.86	15.26	14.79
Public	80.58	76.47	75.74
Govt	-	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Pledged	0.00	0.00	0.00

### Financial Performance (Consolidated)

INR (Cr)	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>816</b>	<b>881</b>	<b>982</b>	<b>1,149</b>
Growth (%)	8.7%	8.5%	11.5%	17.0%
EBITDA	145	159	182	218
EBITDA growth	66.0%	9.3%	14.6%	20.2%
EBITDA margin	17.8%	18.0%	18.5%	19.0%
<b>Net Profit</b>	<b>70</b>	<b>79</b>	<b>93</b>	<b>115</b>
Profit growth	10.4%	10.4%	17.7%	23.2%
Profit margins	8.6%	9.0%	9.5%	10.0%
EPS	8.1	9.2	10.8	13.3
BVPS	74.2	82.0	92.0	104.0
P/E (x)	27.7	70.0	37.0	48.3
P/BV(x)	3.0	7.9	7.0	6.2
ROE (%)	11.4%	15.7%	15.5%	14.1%
RoCE	14.7%	17.3%	19.5%	21.5%
EV/EBITDA(x)	13.92	39.27	37.69	34.50

Source: Company, Share India Securities

### Price Performance



**Our Recommendation:** AMPL is well positioned for robust growth driven by favorable industry trends. Government's emphasis on "Make in India" & indigenization, increasing defence expenditure, solid backlog of orders, a healthy pipeline of orders would drive earnings in mid to long term. We estimate Revenue, EBITDA and PAT to grow at 12%/15% /18% CAGR respectively over FY23-26E. Stock is currently trading at 48x its FY26E EPS. **We recommend BUY in price range of 635-640 with target price of 740 (based on 55x FY26E EPS) with**

**About Company:** Astra Microwave Products is engaged in the business of design, development and manufacture of sub-systems for Radio Frequency and microwave systems that are used in defense, space, meteorology & telecommunication. Product range - radars, missiles, electronic warfare systems, & communication systems

### Investment Rationale:

#### Strong R&D facility & deep domain expertise in key defense electronic systems:

Company is well positioned to capture a big chunk of increasing defense indigenous process in India. Through its domain knowledge & R&D facility, company is producing important electronic equipment like Radars, Missile electronic, Satellites, MMIC, microwave & radiofrequency applications. With rising defense budget & Govt's "Make in India" and "indigenization push" will provide tailwinds to the sector. DAC recently cleared Rs. 80,000 crore defense project & company hopes that its order book may reach 8000 crores in by FY28.

#### Healthy Order Book Presents Strong Growth Prospects:

Astra Micro has a healthy order book worth Rs. 1813 crore (2x of FY23 revenues), which is expected to reach Rs. 8,000 crore till FY28 aided by tailwinds in defence and space sectors due to GOI's "Make in India" support that leads to continuous orders inflow.

**Consistent Financial Performance:** Over FY18-23 period, Sales/EBITDA/PAT has grown at CAGR of 18%/5%/4% respectively from Rs. 362 cr/114 cr/61 cr to Rs. 816 cr/145 cr/70 cr respectively. EBITDA margins hover around 12-15%. Five-year average ROE/ROCE are 7%/12% respectively. Company's leverage position is 1.6x and is almost debt free with D/E 0.08%.

#### Q3FY24 Results: High profit growth aided by improvement in margins.

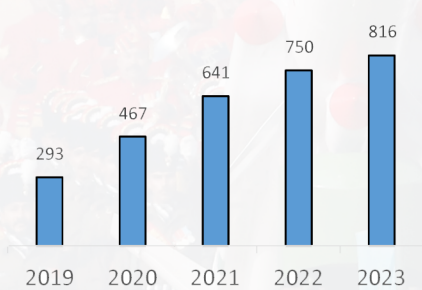
- ❖ Consolidated revenue up by 5% YoY to ₹ 231 Cr from ₹ 220 Cr.
- ❖ EBITDA up by 30.2% YoY to ₹ 66 Cr from ₹ 51 cr with 557 bps improvment in margins to 28.6% from 23.1%.
- ❖ Net Profit increased by 57% YoY to ₹ 43 Cr from ₹ 28 Cr.
- ❖ On QoQ basis, Sales, EBITDA, Net Profit were +21.5%/+58%/+44% respectively.

**Key Risks:** 70 percent orders come from Govt 7 any deviation from "Make in India" plan could impact revenues.

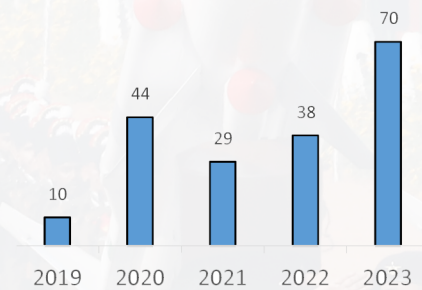
Company Name - Astra Microwave Products Ltd

Financial Story In Charts

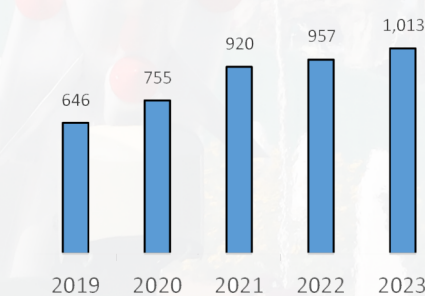
Revenues (INR Cr)



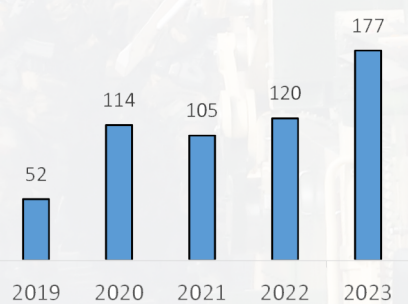
Net Profit (INR Cr)



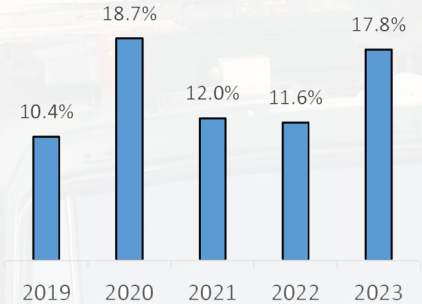
Total Assets (INR Cr)



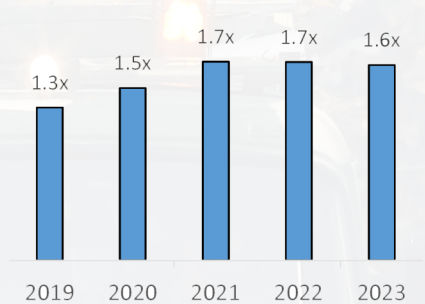
EBITDA (INR Cr)



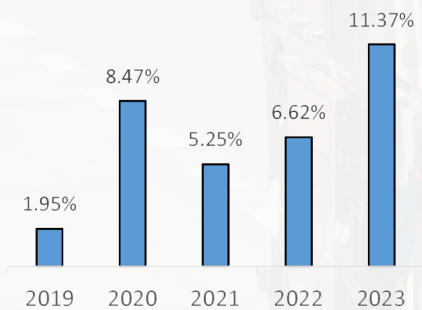
EBITDA Margin (%)



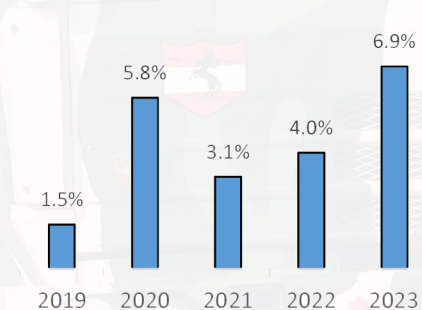
Financial Leverage



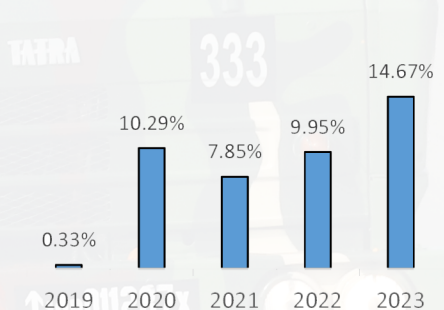
Return on Equity (%)



Return on Assets (%)



Return on Capital Employed (%)





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