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Long-term Fundamental Pick

Hindustan Aeronautics Ltd

Company Name: Hindustan Aeronautics Ltd

BSE CODE: 541154 NSE CODE: HAL

Sector: Aerospace & Defense Industry: Engineering

CMP (Rs): 4615 | Buy Range: 4590-4615| Target Price: 5600| Potential Upside: 21%

Duration of Recommendation: 9-12 Months

BUY

Company Data	
Market Cap (Rs. Cr)	3,08,961
Enterprise value (Rs. Cr)	280061
52-week high / Low	5675/2584
EPS (TTM) (Rs)	127
P/E (x)	36.4
Industry P/E (x) TTM	70.6
EV/EBITDA (x) TTM	22.9
P/BV (x) TTM	9.95

Shareholding %	Mar 2024	June 2024	Sep 2024
Promotors	71.64	71.64	71.64
FII's	12.42	11.68	11.85
DII's	9.58	8.81	8.37
Public	6.36	7.86	8.13
Govt	0.00	0.00	0.00
Other	0.00	0.00	0.00

Financial Performance (Consolidated)				
INR(Cr)	FY23	FY24	FY25E	FY26E
Revenue	**26,927.5**	**30,381.1**	**33,419**	**39,769**
Growth%	*9.4%*	*12.8%*	*10.0%*	*19.0%*
EBITDA	**6,685.7**	**9,751.6**	**10,025.8**	**12,726.0**
Growth	*12.9%*	*45.9%*	*2.8%*	*26.9%*
Margin	*24.8%*	*32.1%*	*30.0%*	*32.0%*
Net Profit	**5,827.7**	**7,621.0**	**8,006.1**	**9,812.3**
Growth	*4.9%*	*30.8%*	*5.1%*	*22.6%*
Margin	*21.6%*	*25.1%*	*24.0%*	*24.7%*
EPS	**87.1**	**113.9**	**119.7**	**146.7**
BVPS	352.5	435.7	518.6	620.3
P/E (x)	15.7	29.9	38.6	31.5
P/BV (x)	3.9	7.8	8.9	7.4
EV/EBITDA	10.6	20.1	27.9	22.0
ROE	24.7%	26.2%	23.1%	23.7%
ROCE	20.7%	28.6%	23.9%	25.8%

1-YEAR PRICE PERFORMANCE

Our Recommendation: HAL is strongly placed to benefit from increased execution of its robust order backlog and has a positive growth outlook due to strong order inflow visibility in the coming years. Current order backlog is ₹94,000 crores and anticipates an increase to ₹120,000 crores by the end of FY25. Orders are expected to continue to flow in over the next 18 months to 3 years, with a projected total of ₹160,000 crores to ₹170,000 crores. Stock is currently trading at FY26E P/E of 31.5x. We value the stock at 38x its FY26E earnings. **We recommend BUY in price range of 4590-4615 with target price of 5600 (valuing stock at 38x its FY26e EPS) with potential upside 21%.**

About Company: HAL manufactures aircraft and helicopters and provides repair and maintenance services. HAL plays a strategic role in India's defense program as it is the core equipment supplier to the Indian Defense Services, including the Indian Air Force, Indian Navy, Indian Army, and Indian Coast Guard.

INVESTMENT RATIONALE

Strong Order Backlog & Order Pipeline to Drive the Growth: As of Fiscal Year 2024, HAL has an order backlog of ₹94,000 crore, which provides strong revenue growth visibility for the next few years. This backlog is expected to reach ₹120,000 crore by the end of Fiscal Year 2025. Further bolstering HAL's growth prospects is a robust order pipeline estimated at ₹1.5 lakh crore to ₹1.7 lakh crore in the coming 1.5 to 3 years. These orders, combined with the existing backlog, are projected to keep HAL's manufacturing lines occupied until 2032, propelling the company into a sustained growth trajectory. HAL expects the order backlog to reach approximately ₹120,000 crore even after fulfilling a portion of the orders as revenue for Fiscal Year 2025. HAL's strong order backlog and pipeline underscore its crucial role in India's defense program, further solidifying its position as a core equipment supplier to the Indian Defense Services.

Capacity Expansion & Execution; longer-term growth outlook intact: HAL has a robust CapEx plan of ₹14,000 crore to ₹15,000 crore over the next five years to augment manufacturing facilities, establish repair and overhaul facilities for various platforms, and support new projects like LCA Mk2, IMRH, and AMCA. HAL is increasing its production capacity for LCA Mk1A aircraft from 16 to 24 aircraft per year, driven by the objective of delivering the 83 aircraft in the existing order ahead of the contracted schedule and accommodating the anticipated order for an additional 97 aircraft. HAL aims to complete the delivery of all 180 LCA Mk1A aircraft by Fiscal Year 2032 or 2033. These expansion efforts will not only accelerate the

HAL is well-positioned to benefit from several key sector tailwinds: The Indian government's push for self-reliance in defense manufacturing is leading to increased orders for domestically produced platforms like HAL's LCA Mk1A. This trend suggests an increase in India's defense budget, creating a larger market for HAL. Globally, there's rising demand for advanced defense platforms, offering HAL opportunities to increase exports. HAL is also exploring new growth areas, such as commercial MRO service.

Q2FY25 Financial Results

Quarterly Financial Performance - HINDUSTAN AERONAUTICS LTD										
Particulars	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**
Sales	3,622	5,145	5,666	12,495	3,915	5,636	6,061	14,769	4,348	5,976
Sales Growth YoY					8.1%	9.5%	7%	18%	11%	6%
Sales Growth QoQ		42.0%	10.1%	120.5%	-68.7%	43.9%	7.6%	143.7%	-70.6%	37.5%
Expenses	2,796	3,523	4,680	9,262	3,039	4,108	4,626	8,867	3,357	4,336
Expenses as % of Sales	77.2%	68.5%	82.6%	74.1%	77.6%	72.9%	76.3%	60.0%	77.2%	72.6%
EBITDA	826	1,622	985	3,232	877	1,528	1,435	5,901	991	1,640
EBITDA Growth YoY					6.1%	-5.8%	45.7%	82.6%	13.0%	7.4%
EBITDA Growth QoQ		96.3%	-39.2%	228.0%	-72.9%	74.2%	-6.0%	311.1%	-83.2%	65.5%
EBITDA Margins	22.8%	31.5%	17.4%	25.9%	22.4%	27.1%	23.7%	40.0%	22.8%	27.4%
Interest	0	0	2	55	0	0	0	31	0	0
Interest % Sales	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%
Depreciation	208	252	269	1,056	201	350	212	644	149	178
Depreciation % Sales	5.7%	4.9%	4.7%	8.4%	5.1%	6.2%	3.5%	4.4%	3.4%	3.0%
EBIT	618	1,370	717	2,177	675	1,178	1,223	5,257	841	1,462
EBIT Growth		121.6%	-47.7%	203.8%	-69.0%	74.4%	3.8%	329.8%	-84.0%	73.8%
EBIT Margin	17.1%	26.6%	12.6%	17.4%	17.3%	20.9%	20.2%	35.6%	19.4%	24.5%
Other Income	204	261	498	722	414	474	467	569	742	560
Profit Before Tax	822	1,631	1,213	2,844	1,089	1,651	1,689	5,795	1,584	2,023
PBT % of Sales	22.7%	31.7%	21.4%	22.8%	27.8%	29.3%	27.9%	39.2%	36.4%	33.8%
Tax	202	409	58	12	275	415	428	1,486	147	512
Effective Tax Rate	25%	25%	5%	0%	25%	25%	25%	26%	9%	25%
Net Profit	620	1,221	1,155	2,831	814	1,237	1,262	4,309	1,437	1,510
Net Profit Margin	17.1%	23.7%	20.4%	22.7%	20.8%	21.9%	20.8%	29.2%	33.1%	25.3%

Q2FY25 Results Summary

- Revenue grew by 6% YoY (+37.5% QoQ) in Q2FY25, reaching ₹5,976.3 crore, likely driven by consistent growth in the RoH segment.
- Revenue growth during the quarter was subdued due to execution challenges in the Tejas Mk1A contract, caused by delays in engine delivery from GE.
- Engine deliveries are anticipated to commence by April/May 2025, which is expected to accelerate project execution and revenue realization from the contract.
- EBITDA margin improved to 27.4% in Q2FY25 (compared to 27.1% in Q2FY24), marking a QoQ increase of 465 basis points.
- Profit After Tax (PAT) rose by 22.1% YoY to ₹1,510.5 crore (up from ₹1,236.7 crore in Q2FY24), reflecting a 5.1% QoQ increase.
- For H1FY25, revenue increased by 8.1% YoY to ₹10,323.8 crore, with EBITDA margins at 25.5% (vs. 25.2% in H1FY24). PAT for H1FY25 surged 43.7% YoY to ₹2,947.6 crore, supported by higher other income and reduced tax expenses.

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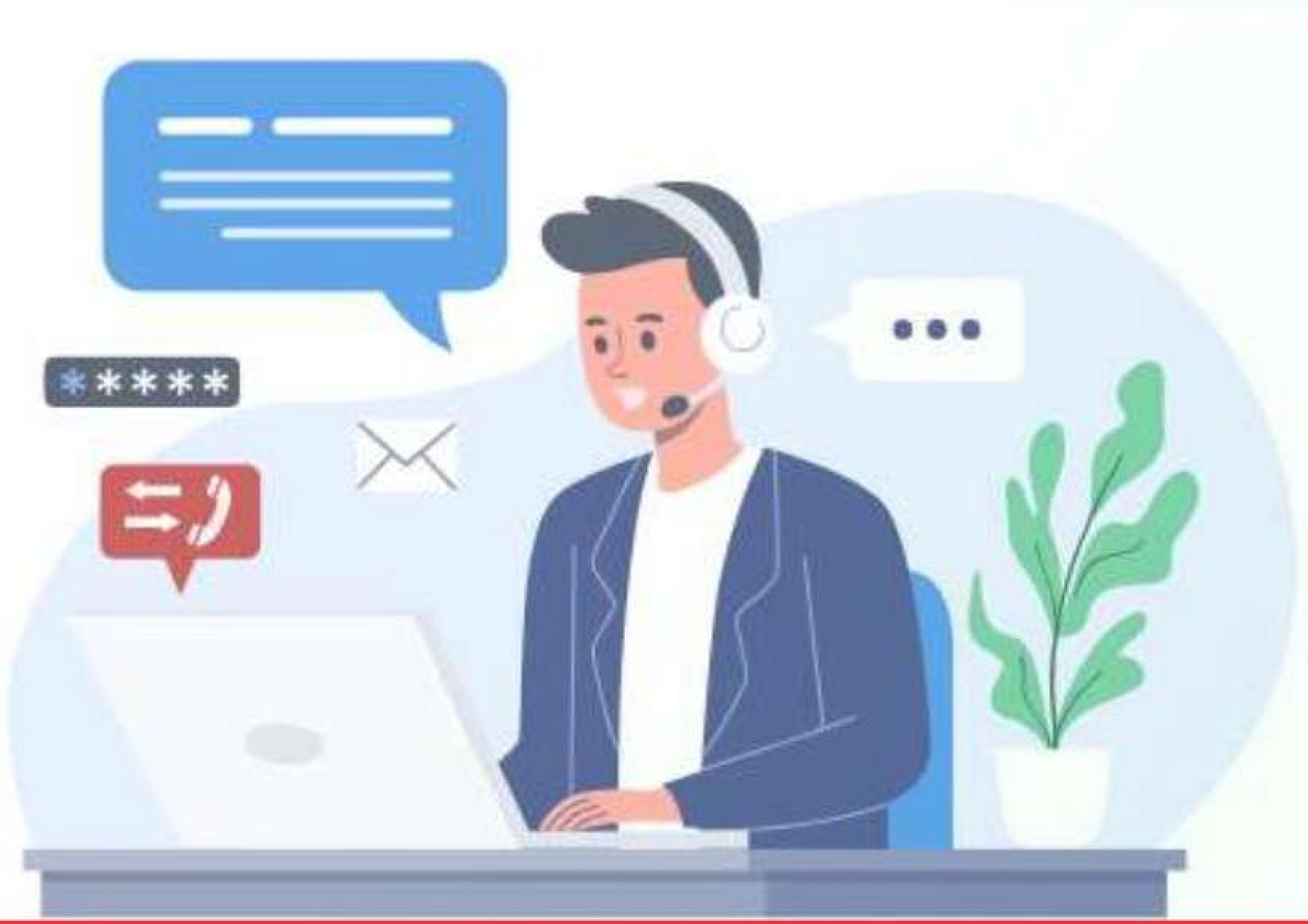

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