

CMP: ₹ 4020

Target: ₹ 4800 (+20%)

Target Period: 12 months

BUY

November 22, 2024

Execution recovery expected to drive growth...

About the stock: Hindustan Aeronautics (HAL), one of the largest Defence PSU in India, is engaged in design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including, aircraft, helicopters, aero-engines, avionics, accessories and aerospace structures

- Company's order backlog stood at ₹ 94000 crore as of FY24 end and is estimated to be at ~₹ 120000 crore as of Q2FY25 end

Investment Rationale:

- Revenue growth expected to pick-up over FY26-27E; Order-book position remains strong:** We believe that HAL's revenue growth would pick-up substantially from FY26E onwards, led by pick-up in execution in manufacturing segment. RoH (repair & overhaul) segment is already doing well and contributing majorly to the revenues at present and is expected to grow at 8-10% YoY annually. In Tejas Mk1A contract, where execution has been interrupted in FY25 due to delays in GE-404 engines delivery from GE, execution is set to improve significantly post the delivery of engines (expected from April/May of 2025). Also, Tejas aircrafts production capacity has also been increased to 24 per year (from 16 earlier), which would further help in recovery of revenues post FY25E. Moreover, we believe that execution in other key large manufacturing contracts on-hand (like aero engines for Mig-29 and Su-30 MKI aircrafts upgradation) is expected to remain better led by higher indigenisation level of these platforms. Order backlog is estimated to be at ~Rs 1.2 lakh crore (3.8x TTM revenue), provides healthy revenue growth visibility over FY25-27E
- Order pipeline remains robust; longer-term growth outlook intact:** As per the management, orders pipeline remains robust for HAL with ~Rs 1.5 lakh crore worth of contracts are expected to be placed with the company in the coming 1.5-3 years. This includes key projects like 97 additional LCA MK1A fighters, additional 12 Su-30 MKI fighters, 156 light combat helicopters, 60 naval utility helicopters etc. Additionally, there are number of large-scale contracts (like AMCA, deck-based fighters for Navy, multi role helicopters etc) which will be placed with HAL in the next 4-5 years. Moreover, RoH contracts to the tune of ₹ 18000-20000 crore on an annual basis are expected to be placed with the company, considering the increasing need of repair & maintenance for existing and future platforms. This pipeline of orders gives longer term visibility on the company's revenue growth in the coming years

Rating and Target Price

- We believe that HAL is strongly placed to benefit from pick-up in execution of existing strong order backlog and robust pipeline. We estimate revenue & PAT to grow at ~15% & ~19% CAGR respectively over FY25E-27E
- We recommend BUY on HAL with target price of ₹ 4800 per share (based on 30x FY27E EPS)



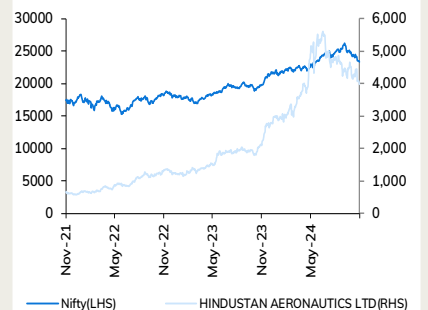
Particulars

Particular (Rs crore)	Amount
Market Capitalisation	2,68,848
Total Debt (FY24)	-
Cash (FY24)	27,187
EV	2,41,661
52 Week H/L (Rs)	5675 / 2145
Equity Capital	334
Face Value	5

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	71.6	71.6	71.6	71.6
FII	12.9	12.4	11.7	11.9
DII	9.1	9.6	8.8	8.4
Others	6.3	6.4	7.9	8.1

Price Chart



Key risks

- Dependent on govt contracts
- High working capital requirement
- Availability of key raw materials/components

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Kush Bhandari
kush.bhandari@icicisecurities.com

Key Financial Summary

(Year-End March)	FY22	FY23	FY24	3 Year CAGR (FY22-24)	FY25E	FY26E	FY27E	2 Year CAGR (FY25E-27E)
Revenues	24,620	26,927	30,381	9.9	32,911	37,803	43,389	14.8
EBITDA	5,409	6,679	9,741	22.2	9,415	11,942	14,085	22.3
EBITDA margin (%)	22.0	24.8	32.1		28.6	31.6	32.5	
PAT	5,080	5,828	7,621	32.9	7,552	9,253	10,693	19.0
EPS (Rs)	76.0	87.1	114.0		112.9	138.4	159.9	
P/E (x)	52.9	46.2	35.4		35.7	29.1	25.1	
EV/EBITDA (x)	47.1	37.2	24.8		25.5	19.5	16.1	
RoCE (%)	27.4	27.8	35.1		29.8	31.0	30.4	
RoE (%)	26.3	24.7	26.1		22.2	23.1	22.6	

Source: Company, ICICI Direct Research

Q2FY25 Result Summary

- Revenue increased by 6% YoY (+37.5% QoQ) to ₹ 5976.3 crore in Q2FY25, possibly led by sustained growth in RoH segment
- Revenue growth remained muted during the quarter on account of execution disruptions in Tejas Mk1A contract due to delays in engine delivery from GE
- According to the reports, engine delivery is expected to start from April/May of 2025, this would help pick-up in execution and revenue recognition from the contract
- EBITDA margin was at 27.4% (vs 27.1% in Q2FY24), an improvement of 465 bps on a QoQ basis
- PAT was up 22.1% YoY to ₹ 1510.5 crore (vs 1236.7 crores in Q2FY24) an increase of 5.1% QoQ
- The H1FY25 revenue is up 8.1% YoY to ₹ 10323.8 crore with EBITDA margin stands at 25.5% (vs 25.2% in H1FY24). H1FY25 PAT is up 43.7% YoY to ₹ 2947.6 crore, on account of higher other income and lower tax outgo

Exhibit 1: Q2FY25 and H1FY25 result snapshot (₹ crore)

	Q2FY25	Q1FY24	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Operating Income	5,976.3	3,915.4	5,635.7	6.0	4,347.5	37.5	10,323.8	9,551.1	8.1
Other income	542.4	409.9	469.4	15.6	736.4		1,278.8	879.3	45.4
Total Revenue	6,518.7	4,325.3	6,105.1	6.8	5,083.9		11,602.6	10,430.4	11.2
Raw materials costs	2,445.9	1,024.2	2,351.9	4.0	1,451.2		3,897.1	3,376.0	15.4
Employees Expenses	1,375.3	1,403.7	1,195.9	15.0	1,247.6		2,622.9	2,599.6	0.9
Other Expenses	515.2	610.7	560.3	-8.1	658		1,173.2	1,170.9	0.2
Total Expenditure	4,336.3	3,038.5	4,108.1	5.6	3,357		7,693.1	7,146.6	7.6
EBITDA	1,640.0	876.8	1,527.6	7.4	990.7	65.5	2,630.7	2,404.5	9.4
EBITDA margins (%)	27.4	22.4	27.1	33 bps	22.8	465 bps	0.3	0.3	
Interest	0.0	0.0	0.3	-93.8	0.1		0.2	0.3	-52.9
Depreciation	177.6	201.4	349.7	-49.2	149.2		326.8	551.0	-40.7
Tax	512.2	274.9	414.8	23.5	146.6		658.8	689.7	-4.5
PAT	1,510.5	814.1	1,236.7	22.1	1,437.1	5.1	2,947.6	2,050.8	43.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement

₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Revenue	30,381	32,911	37,803	43,389
% Growth	12.8	8.3	14.9	14.8
Other income	1,896.6	2,408.7	2,480.9	2,567.8
Total Revenue	32,291	35,328	40,299	45,972
% Growth	12.9	9.4	14.1	14.1
Total Raw Material Costs	11,059	12,835	13,987	16,054
Employee Expenses	5,291	5,727	6,200	6,725
other expenses	4,290	4,934	5,674	6,525
Total Operating Expenditure	20,640	23,496	25,861	29,304
Operating Profit (EBITDA)	9,741	9,415	11,942	14,085
% Growth	45.8	(3.3)	26.8	17.9
Interest	32	0	0	0
PBDT	11,606	11,824	14,423	16,653
Depreciation	1,407	1,711	2,004	2,300
PBT before Exceptional Items	10,198	10,113	12,420	14,353
Total Tax	2,604	2,585	3,167	3,660
PAT before MI	7,621	7,552	9,253	10,693
PAT	7,621	7,552	9,253	10,693
% Growth	30.8	(0.9)	22.5	15.6
EPS	114.0	112.9	138.4	159.9

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement

₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Profit after Tax	7,621	7,552	9,253	10,693
Depreciation	1,407	1,711	2,004	2,300
Interest	32	0	0	0
Cash Flow before WC changes	9,060	9,263	11,256	12,993
Changes in inventory	(1,069)	(3,914)	43	(1,931)
Changes in debtors	102	(252)	(827)	(842)
Changes in loans & Advances	(3)	-	-	-
Changes in other current assets	(1,143)	(591)	(881)	(1,005)
Net Increase in Current Assets	(5,026)	(6,079)	(3,718)	(6,139)
Changes in creditors	278	284	550	627
Changes in provisions	832	633	1,225	1,399
Net Inc in Current Liabilities	5,497	2,722	5,395	6,160
Net CF from Operating activities	9,532	5,906	12,934	13,015
Changes in deferred tax assets	(329)	-	-	-
(Purchase)/Sale of Fixed Assets	(1,689)	(3,000)	(3,000)	(3,000)
Net CF from Investing activities	(1,108)	(1,034)	(23,064)	(3,074)
Dividend and Dividend Tax	(1,505)	(1,505)	(2,006)	(2,274)
Net CF from Financing Activities	(1,553)	(3,292)	(3,202)	(3,469)
Net Cash flow	6,870	1,581	(13,332)	6,472
Opening Cash/Cash Equivalent	20,317	27,187	28,767	15,435
Closing Cash/ Cash Equivalent	27,187	28,767	15,435	21,907
FCF	7,843	2,906	9,934	10,015

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Equity Capital	334.4	334.4	334.4	334.4
Reserve and Surplus	28,804	33,655	39,706	46,930
Total Shareholders funds	29,138	33,990	40,041	47,264
Other Non Current Liabilities	10,543.8	12,500.0	12,500.0	12,500.0
Total Debt	-	-	-	-
Total Liabilities	41,771	48,622	54,673	61,896
Gross Block	13,672	16,609	19,609	22,609
Acc: Depreciation	7,892	9,603	11,607	13,907
Net Block	5,780	7,006	8,002	8,702
Capital WIP	937	950	950	950
Total Fixed Assets	8,475	10,356	11,352	12,052
Non Current Assets	4,256	4,289	4,353	4,425
Inventory	13,218	17,132	17,089	19,020
Debtors	4,617	4,869	5,696	6,538
Loans and Advances	11	11	11	11
Other Current Assets	5,333	5,924	6,805	7,810
Cash	27,187	28,767	15,435	21,907
Total Current Assets	63,772	71,432	61,818	74,428
Current Liabilities	3,413	3,697	4,246	4,874
Provisions	1,578	1,265	1,266	1,267
Total Current Liabilities	36,324	39,046	44,441	50,602
Net Current Assets	27,448	32,386	17,377	23,826
Total Assets	41,771	48,622	54,673	61,896

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

Year-End March	FY24	FY25E	FY26E	FY27E
EPS	114.0	112.9	138.4	159.9
Cash per Share	406.5	430.1	529.9	626.6
BV	435.7	508.2	598.7	706.7
Dividend per share	22.5	22.5	30.0	34.0
Dividend payout ratio	20%	20%	22%	21%
EBITDA Margin	32.1	28.6	31.6	32.5
PAT Margin	25.1	22.9	24.5	24.6
RoE	26.1	22.2	23.1	22.6
RoCE	35.1	29.8	31.0	30.4
EV / EBITDA	24.8	25.5	19.5	16.1
P/E	35.4	35.7	29.1	25.1
EV / Net Sales	8.0	7.3	6.2	5.2
Sales / Equity	1.0	1.0	0.9	0.9
Market Cap / Sales	8.8	8.2	7.1	6.2
Price to Book Value	9.2	7.9	6.7	5.7
Asset turnover	1.0	1.0	0.9	0.9
Debtors Turnover Ratio	6.5	6.9	7.2	7.1
Creditors Turnover Ratio	9.3	9.3	9.5	9.5
Debt / Equity	-	-	-	-
Current Ratio	1.7	1.9	1.8	1.8
Quick Ratio	0.7	0.7	0.8	0.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Chirag Shah, PGDBM, Vijay Goel, PGDBM, Kush Bhandari, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.