

May 21, 2024

Execution picks-up; Orders prospect remains robust...

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 stands at ₹ 94000 crore as of FY24 end

Q4FY24 Performance: Revenue increased by 18.2% YoY (+143.7% QoQ) to ₹ 14768.8 crore in Q4FY24. During the quarter, the company has recognized additional revenue of ~₹ 549 crore pertaining to change of value of an old contract. EBITDA margin was at 40% (vs 26% in Q4FY24). However, the company has reversed the provision of ₹ 1034 crore made in earlier years. Adjusted revenue growth during the quarter stands at 13.8% YoY with EBITDA margin at 30.4% (+439 bps YoY). EBITDA was up 81.8% YoY to ₹ 5901.3 crore. PAT was up 52.2% YoY to ₹ 4308.7 crore due to lower tax outgo last year in Q4FY23. For FY24, revenue is up 12.8% YoY to ₹ 30381.1 crore with EBITDA margin at 32.1% (vs 24.8% in FY23). PAT for FY24 is up 30.8% YoY to ₹ 7621 crore

Investment Rationale:

- Strong order-book position provides healthy revenue growth visibility:** HAL's order backlog stands at ₹ 94,000 crore (3x FY24 revenue). Company's revenue growth is expected to pick-up substantially over the next few years, led by pick-up in execution of major contracts like Tejas MK1A aircrafts (which remains the largest manufacturing contracts at ~35% of current order book) and other manufacturing contracts (like LCH, LUH, ALH, aero-engines etc). Execution of MRO contracts is expected to remain strong with continuous order inflows and shorter execution duration
- Commissioning of new capacities to aid further growth in domestic segments and exports:** As per the company, ₹ 1.6-1.7 lakh crore worth of contracts are expected to be placed with HAL in the coming 1.5-3 years. 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 3-5 years. This pipeline of projects gives longer term visibility on the company in terms of manufacturing order inflows and thus 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, EBITDA and PAT to grow at ~14%, ~17% and ~13% CAGR respectively over FY23-26E
- Valuation at 37.9x P/E on FY26E basis looks attractive given strong growth ahead led by multiple sectoral tailwinds. We recommend BUY on HAL with target price of ₹ 5700 per share (based on 45x FY26E EPS)



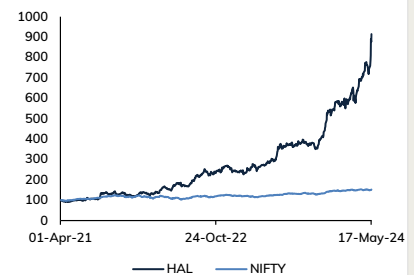
Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	3,16,331
Total Debt (FY24 - Rs Crore)	-
Cash (FY24 - Rs Crore)	27,187
EV (Rs Crore)	2,89,144
52 Week H/L (Rs)	4755 / 1490
Equity Capital	334
Face Value	5

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	71.6	71.6	71.6	71.6
FII	11.9	12.6	12.9	12.4
DII	10.6	9.7	9.1	9.6
Others	5.8	6.0	6.3	6.4

Price Chart



Key risks

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

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Key Financial Summary

(Year-End March)	FY20	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	3 Year CAGR (FY23-26E)
Revenues	21,438	22,882	24,620	26,927	30,381	9.9	34,283	39,775	13.9
EBITDA	4,896	5,336	5,409	6,679	9,741	22.2	9,080	10,742	17.2
EBITDA margin (%)	22.8	23.3	22.0	24.8	32.1		26.5	27.0	
PAT	2,873	3,246	5,080	5,828	7,621	32.9	7,088	8,466	13.3
EPS (Rs)	85.9	48.5	76.0	87.1	114.0		106.0	126.6	
P/E (x)	57.9	99.4	63.4	55.3	42.4		45.4	38.0	
EV/EBITDA (x)	66.9	59.0	56.9	45.2	30.3		32.0	26.7	
RoCE (%)	21.9	29.4	27.4	27.8	35.1		28.7	29.6	
RoE (%)	21.0	21.0	26.3	24.7	26.1		21.3	22.0	

Source: Company, ICICI Direct Research

Q4FY24 & FY24 Result Summary

- Revenue increased by 18.2% YoY (+143.7% QoQ) to ₹ 14768.8 crore in Q4FY24. During the quarter, the company has recognized additional revenue of ~₹ 549 crore pertaining to change of value of an old contract
- Revenue growth at ~11% in FY24 (adjusted for additional revenue recognition) was in-line with the provisional revenue notified by the company for the year
- EBITDA margin was at 40% (vs 26% in Q4FY24). However, the company has reversed the provision of ₹ 1034 crore made in earlier years
- Adjusted revenue growth during the quarter stands at 13.8% YoY with EBITDA margin at 30.4% (+439 bps YoY). EBITDA was up 81.8% YoY to ₹ 5901.3 crore
- EBITDA margin of 27.3% for FY24 was better than expectations (even after adjusting reversal of provisions), led by costs optimization
- PAT was up 52.2% YoY to ₹ 4308.7 crore due to lower tax outgo last year in Q4FY23
- For FY24, revenue is up 12.8% YoY to ₹ 30381.1 crore with EBITDA margin at 32.1% (vs 24.8% in FY23). PAT for FY24 is up 30.8% YoY to ₹ 7621 crore

Earnings call highlights – Q4FY24 & FY24

- Order backlog stands at ₹ 94000 crore as of March 2024 end (vs ₹ 82000 crore in FY23 end)
- Order inflows stood at ₹ 19000 crore in manufacturing segment (which includes orders for RD-33 engines, Advanced Light Helicopters for Army and Indian Coast Guard, 25 Dornier aircrafts for Indian Navy, Various types of engines). Repair & Overhaul (RoH) order inflow stood at ₹ 21000 crore in FY24 while export order inflow stood at ₹ 500 crore during the year
- During FY24, company delivered the following platforms (5 LCA MK1A, 6 ALH, 15 RD-33 engines and 2 Dornier aircrafts to Guyana)
- RoH revenue stood at ₹ 20000 crore in FY24 while revenue for development segment was at ₹ 1500 crore
- Company's margins have improved substantially on YoY basis, mainly on account of cost optimisation (employee costs and others costs)
- Total employee cost has come down to 17% of sales in FY24 vs 23% of sales in FY19). Overhead expenses have also been rationalised to 4.6% of sales in FY24 (vs 8% of sales in FY19)
- Inventory days have reduced to 159 days in FY24 (vs 360 days in FY18). Debtor days have reduced to 55 days in FY24 (from 227 days in FY19). Company expect inventory days and debtor days to remain at FY24 levels going ahead
- Order pipeline includes 97 LCA MK1A, 156 Light Combat Helicopters (LCH) Prachand, 43 ALH Dhruv, Dornier aircrafts, 60 Light Utility Helicopters – Marine for Indian Navy). The procurement of these platforms have already been approved by govt. Estimated cost of these platforms is ₹ 1.6-1.7 lakh crore and orders expected to materialise in next 1.5-3 years
- Company expect orders inflows worth ₹ 47000 crore (only manufacturing) in FY25, which includes AL-31 FP engines (for Sukhoi aircrafts), 12 additional Su-30 fighters and 12 Light Utility Helicopters (LUH). These orders are in advanced stages of finalisation
- In RoH segment, company expect annual order inflow to be at ~₹ 20000 crore for the next few years
- Order book is expected to be at ₹ 1.2 lakh crore by FY25 end

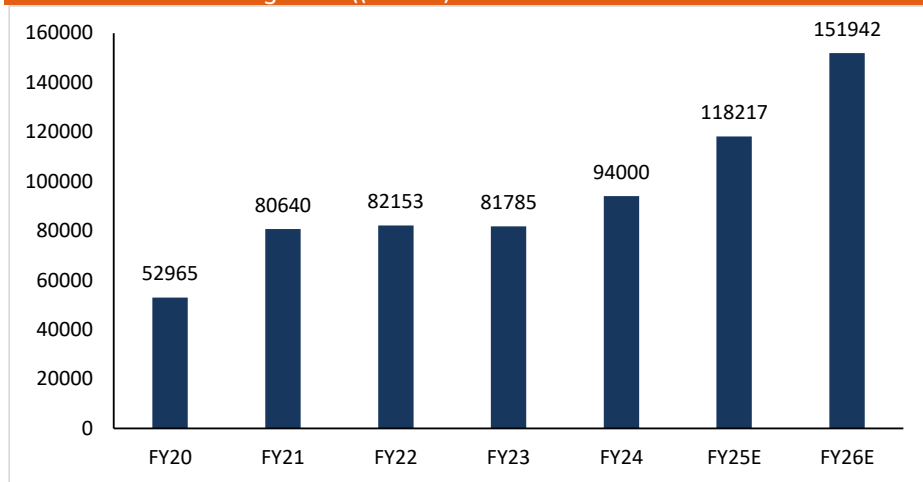
- Company is in process of increasing its capacity for manufacturing aircrafts and helicopters. For helicopters, company is in process of setting up a facility at Tumkur and for Tejas aircrafts manufacturing, company is setting up a new facility at Nashik (expected to be operational by Oct 2024)
- The increase in capacities will help company to execute current orders, future domestic orders as well as export opportunities
- Current production capacity for LCA MK1A is 16 aircrafts per annum (with two facilities are operational at Bangalore). HAL is in process of expanding this production capacity by 8 aircrafts to 24 aircrafts through Nashik facility
- HAL is working on increasing indigenisation level of LCA MK1A through increasing localisation of LRUs. From 41st LCA MK1A aircraft, indigenous Uttam radar, electronic warfare and some other LRUs will be equipped. Indigenisation level is expected to increase to 65%+ post this indigenous components
- Company plans total capex of ₹ 14000-15000 crore in the next 5 years (which implies ~₹ 3000 crore per annum). This includes capex required for repair & overhaul (RoH) segment
- Deliveries for LCA MK1A will commence in FY25 (16 aircrafts are expected to be delivered during the year). Company will also complete deliveries of LUH in FY25 (though order is yet to be received, but HAL has already started manufacturing of these helicopters)
- During FY26, company will commence deliveries of HTT-40 basic trainers, Civil ALH (where HAL has initiated the process and in process of completing the certifications and approvals) and LCH. Additionally, company is expecting 24 LCA MK1A to be delivered during the year
- During FY27, HAL will commence deliveries of LUH-Marine, Tejas MK2 prototype, IMRH (Indian Multi Role Helicopter) prototype
- HAL targets to complete delivery of 180 LCA MK1A (which includes 83 existing order and 97 additional order expected) by FY32/33
- Company guides for double digit revenue growth for the next few years. Revenue growth for manufacturing segment is expected to be 15-18% in FY25E & FY26E while it is expected to be 8-10% in RoH segment. Company has guided EBITDA margin of 26-27% for the coming year (excluding other income)
- Export sales stands at ~1% of sales at present. However, company has been in discussions with countries like Philippines, Argentina, Nigeria, Egypt for its platforms like LCA, ALH etc

Exhibit 1: Q4FY24 result snapshot (₹ crore)

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Operating Income	14,768.8	12,494.7	18.2	6,061.3	143.7	Company has recognized additional revenue of ~Rs 549 crore pertaining to change of value of an old contract
Other income	557.3	722.2	-22.8	460.0	21.2	
Total Revenue	15,326.1	13,216.9	16.0	6,521.3	135.0	
Raw materials costs	4,848.2	4,756.1	1.9	2,834.9	71.0	
Employees Expenses	1,390.6	1,615.0	-13.9	1,300.5	6.9	
Other Expenses	2,628.7	2,877.7	-8.7	491	435.8	
Total Expenditure	8,867.5	9,248.9	-4.1	4,626	91.7	
EBITDA	5,901.3	3,245.8	81.8	1,435.3	311.1	
EBITDA margins (%)	40.0	26.0	1398 bps	23.7	1628 bps	Margins improvement was mainly led by costs optimisation
Interest	31.4	55.3		0.4		
Depreciation	644.0	1,055.6	-39.0	212.2	203.5	
Tax	1,486.3	12.5	11,819.2	427.9	247.3	
PAT	4,308.7	2,831.2	52.2	1,261.5	241.5	

Source: Company, ICICI Direct Research

Exhibit 2: Order backlog trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Revenue	26,927	30,381	34,283	39,775
% Growth	9.4	12.8	12.8	16.0
Other income	1,670.1	1,896.6	2,181.1	2,682.7
Total Revenue	28,607	32,291	36,477	42,473
% Growth	11.7	12.9	13.0	16.4
Total Raw Material Costs	10,102	11,059	14,913	17,143
Employee Expenses	4,910	5,291	5,485	6,364
Other expenses	5,236	4,290	4,805	5,526
Total Operating Expenditure	20,248	20,640	25,204	29,033
Operating Profit (EBITDA)	6,679	9,741	9,080	10,742
% Growth	23.5	45.8	(6.8)	18.3
Interest	58	32	32	32
PBDT	8,291	11,606	11,229	13,393
Depreciation	1,785	1,407	1,714	2,029
PBT before Exceptional Items	6,507	10,198	9,515	11,364
Total Tax	682	2,604	2,426	2,898
PAT before MI	5,828	7,621	7,088	8,466
PAT	5,828	7,621	7,088	8,466
% Growth	14.7	30.8	(7.0)	19.4
EPS	174.3	114.0	106.0	126.6

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E
Profit after Tax	5,828	7,621	7,088	8,466
Depreciation	1,785	1,407	1,714	2,029
Interest	58	32	32	32
Cash Flow before WC changes	7,670	9,060	8,835	10,527
Changes in inventory	2,199	(1,069)	(1,717)	(2,392)
Changes in debtors	(78)	102	(549)	(827)
Changes in loans & Advances	0	(3)	-	-
Changes in other current assets	(1,380)	(1,143)	(496)	(934)
Net Increase in Current Assets	(922)	(5,026)	(4,082)	(6,206)
Changes in creditors	577	278	579	639
Changes in provisions	1,721	832	1,171	1,407
Net Inc in Current Liabilities	5,805	5,497	3,885	6,000
Net CF from Operating activities	12,553	9,532	8,637	10,321
Changes in deferred tax assets	(560)	(329)	-	-
(Purchase)/Sale of Fixed Assets	(1,344)	(1,689)	(3,000)	(3,000)
Net CF from Investing activities	(5,035)	(1,108)	(1,051)	(23,071)
Dividend and Dividend Tax	(1,338)	(1,505)	(1,739)	(2,006)
Net CF from Financing Activities	(1,557)	(1,553)	(3,558)	(3,234)
Net Cash flow	5,961	6,870	4,027	(15,984)
Opening Cash/Cash Equivalent	14,356	20,317	27,187	31,214
Closing Cash/ Cash Equivalent	20,317	27,187	31,214	15,230

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E
Equity Capital	334.4	334.4	334.4	334.4
Reserve and Surplus	23,238	28,804	32,958	38,223
Total Shareholders funds	23,572	29,138	33,292	38,557
Other Non Current Liabilities	10,926.0	10,543.8	12,500.0	12,500.0
Total Debt	-	-	-	-
Total Liabilities	36,377	41,771	47,924	53,189
Gross Block	12,284	13,672	16,609	19,609
Acc. Depreciation	6,485	7,892	9,606	11,635
Net Block	5,799	5,780	7,003	7,974
Capital WIP	637	937	950	950
Total Fixed Assets	8,728	8,475	10,353	11,324
Non Current Assets	5,141	4,256	4,307	4,378
Inventory	12,149	13,218	14,934	17,326
Debtors	4,719	4,617	5,166	5,993
Loans and Advances	8	11	11	11
Other Current Assets	4,189	5,333	5,828	6,762
Cash	20,317	27,187	31,214	15,230
Total Current Assets	51,877	63,772	71,882	62,104
Current Liabilities	3,135	3,413	3,992	4,631
Provisions	1,347	1,578	1,265	1,266
Total Current Liabilities	30,827	36,324	40,209	46,209
Net Current Assets	21,050	27,448	31,673	15,895
Total Assets	36,376	41,771	47,924	53,189

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
EPS	87.1	114.0	106.0	126.6
Cash per Share	303.8	406.5	466.7	526.8
BV	352.5	435.7	497.8	576.5
Dividend per share	20.0	22.5	26.0	30.0
Dividend payout ratio	23%	20%	25%	24%
EBITDA Margin	24.8	32.1	26.5	27.0
PAT Margin	21.6	25.1	20.7	21.3
RoE	24.7	26.1	21.3	22.0
RoCE	27.8	35.1	28.7	29.6
EV / EBITDA	45.2	30.3	32.0	26.7
P/E	55.3	42.4	45.4	38.0
EV / Net Sales	11.2	9.7	8.5	7.2
Sales / Equity	1.1	1.0	1.0	1.0
Market Cap / Sales	12.0	10.6	9.4	8.1
Price to Book Value	13.7	11.1	9.7	8.4
Asset turnover	1.1	1.0	1.0	1.0
Debtors Turnover Ratio	5.8	6.5	7.0	7.1
Creditors Turnover Ratio	9.5	9.3	9.3	9.2
Debt / Equity	-	-	-	-
Current Ratio	1.7	1.7	1.7	1.7
Quick Ratio	0.7	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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