

Strong order backlog with robust pipeline...

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 revenue and PAT have grown at 7.9% & 19% CAGR respectively over the period FY20-23. Repair & Overhaul (RoH) segment contributed ~70% of total sales in FY23, followed by ~18% by manufacturing segment
- Order backlog is estimated to be at ~₹ 85000 crore (3x TTM revenue), of which ~75% is contributed by manufacturing contracts

Investment Rationale:

- **Strong order-book position provides healthy revenue growth visibility over the next 3 years:** Company's order backlog is estimated at ~₹ 85,000 crore (3x TTM revenue), of which ~75% is contributed by manufacturing contracts (led by large scale orders like Tejas Mk1A fighter jets, helicopters, engines) and ~23% by repair & overhaul contracts. The strong order-book position provides healthy revenue growth visibility over the next 3 years. Overall execution is expected to pick-up considerably led by increasing indigenisation level of engines, electronic systems and required materials. Execution of Tejas aircrafts (~30% of total backlog) and other manufacturing contracts are expected to drive revenue growth from FY25E onwards. Moreover, execution timeline of margin-accretive RoH contracts remains short-term and supports company's revenue growth and margins
- **Orders pipeline remains robust for the medium to long term:** As per the estimates, ~₹ 2 lakh crore worth of contracts are expected to be placed with HAL in the coming 3-4 years (as shown in Exhibit 2). Additionally, there are number of large-scale contracts (shown in Exhibit 3) which will be placed with HAL or the company will play a key role in supply chain in some projects. 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. Moreover, RoH contracts to the tune of ~₹ 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

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 11.5%, 11.3% and 12.0% CAGR respectively over FY23-26E
- Valuation at 29.8x 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 ₹ 3660 per share (based on 36x FY26E EPS)



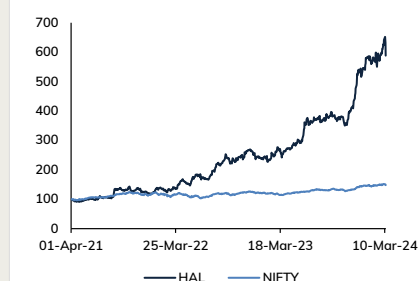
Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	2,02,706
Total Debt (FY23 - Rs Crore)	-
Cash (FY23 - Rs Crore)	20,317
EV (Rs Crore)	1,82,389
52 Week H/L (Rs)	3429 / 1238
Equity Capital	334
Face Value	5

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	71.7	71.6	71.6	71.6
FII	9.1	11.9	12.6	12.9
DII	13.9	10.6	9.7	9.1
Others	5.3	5.8	6.0	6.3

Price Chart



Key risks

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

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Key Financial Summary

(Year-End March)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-26E)
Revenues	21,438	22,882	24,620	26,927	7.9	29,055	32,665	37,340	11.5
EBITDA	4,896	5,336	5,409	6,679	10.9	7,055	8,028	9,206	11.3
EBITDA margin (%)	22.8	23.3	22.0	24.8		24.3	24.6	24.7	
Adjusted PAT	2,873	3,246	3,887	4,838	19.0	5,147	5,895	6,800	12.0
EPS (Rs)	85.9	97.1	151.9	174.3		77.0	88.1	101.7	
P/E (x)	36.4	31.3	20.0	17.4		39.5	34.4	29.8	
EV/EBITDA (x)	42.5	36.6	34.8	27.3		25.9	22.5	15.1	
RoCE (%)	21.9	29.4	27.4	27.8		30.0	30.3	30.7	
RoE (%)	21.0	21.0	26.3	24.7		22.2	22.6	22.9	

Exhibit 1: Orders received during YTFY24 (₹ crore)

Platform	Quantity		
RD-33 Aero-engines for Mig-29	80	Indian Air Force	5,250
Advanced Light Helicopter	34	Indian Army (25), Indian Coast Guard (9)	8,073
Repair & Overhaul (RoH) contracts*			20,000
Total			33,323

Source: Company, ICICI Direct Research *Estimated

Exhibit 2: Orders in Pipeline over the next 3-4 years (₹ crore)

Platform	Quantity	Customer	Expected Value
Light Combat Aircraft Tejas MK1A	97	Indian Air Force	58,200
Sukhoi-30 MKI	12	Indian Air Force	12,000
AL-31 FP Engines (for Su-30 MKI aircrafts)	240	Indian Air Force	20,500
Light Combat Helicopter	156	Indian Air Force (66), Indian Army (90)	46,800
Light Utility Helicopter	175	Indian Air Force (55), Indian Army (120)	43,750
Utility Helicopters Maritime	60	Indian Navy	15,000
Hindustan Turbo Trainer-40	36	Indian Air Force	3,600
Total			1,99,850

Source: Company, ICICI Direct Research

Exhibit 3: Other order opportunities for HAL

Tejas MK2	Engines (Tejas MK2, AMCA, TEDBF, IMRH, DBMRF)*
Advanced Medium Combat Aircraft (AMCA)^	MMTT (Multi Mission Tanker Aircraft)
Twin Engine Deck Based Fighter (TEDBF)	Civil Aircrafts
Indian Multi-Role Helicopter (IMRH)	Civil Helicopters
Deck Based Multi-Role Helicopter (DBMRH)	MRO (MQ-9B engines)
CATS (Combat Air Teaming System)	PSLVs
Archer Unmanned Ariel Vehicle (UAV)	Cryogenic engines
Tapas UAV	Exports (Manufacturing + MRO)
Rustom UAV	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Revenue	26,927	29,055	32,665	37,340
% Growth	9.4	7.9	12.4	14.3
Other income	1,670.1	1,800.0	1,980.0	2,178.0
Total Revenue	28,607	30,863	34,657	39,532
% Growth	11.7	7.9	12.3	14.1
Total Raw Material Costs	10,102	13,191	15,026	17,363
Employee Expenses	4,910	5,259	5,635	6,198
other expenses	5,236	3,550	3,976	4,572
Total Operating Expenditure	20,248	22,000	24,636	28,134
Operating Profit (EBITDA)	6,679	7,055	8,028	9,206
% Growth	23.5	5.6	13.8	14.7
Interest	58	58	58	58
PBDT	8,291	8,797	9,950	11,326
Depreciation	1,785	1,912	2,091	2,259
PBT before Exceptional Items	6,507	6,885	7,860	9,067
Total Tax	682	1,753	1,965	2,267
PAT before MI	5,828	5,147	5,895	6,800
PAT	5,828	5,147	5,895	6,800
% Growth	14.7	(11.7)	14.5	15.4
EPS	174.3	77.0	88.1	101.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

Year-End March	FY23	FY24E	FY25E	FY26E
Profit after Tax	5,828	5,147	5,895	6,800
Depreciation	1,785	1,912	2,091	2,259
Interest	58	58	58	58
Cash Flow before WC changes	7,670	7,117	8,043	9,117
Changes in inventory	2,199	(2,578)	(2,277)	(2,434)
Changes in debtors	(78)	(853)	(692)	(897)
Changes in loans & Advances	0	-	-	-
Changes in other current assets	(1,380)	(460)	(578)	(748)
Net Increase in Current Assets	(922)	(5,228)	(5,165)	(5,939)
Changes in creditors	577	288	425	551
Changes in provisions	1,721	1,094	978	1,267
Net Inc in Current Liabilities	5,805	2,893	3,894	42,383
Net CF from Operating activities	12,553	4,782	6,772	45,561
Changes in deferred tax assets	(560)	-	-	-
(Purchase)/Sale of Fixed Assets	(1,273)	(1,200)	(1,200)	(1,200)
Net CF from Investing activities	(4,965)	364	(1,255)	(21,272)
Dividend and Dividend Tax	(1,338)	(1,505)	(1,739)	(2,006)
Net CF from Financing Activities	(1,627)	(5,737)	(2,992)	(3,260)
Net Cash flow	5,961	(591)	2,525	21,030
Opening Cash/Cash Equivalent	14,356	20,317	19,726	22,250
Closing Cash/ Cash Equivalent	20,317	19,726	22,250	43,280

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

Year-End March	FY23	FY24E	FY25E	FY26E
Equity Capital	334.4	334.4	334.4	334.4
Reserve and Surplus	23,238	22,814	25,775	29,373
Total Shareholders funds	23,572	23,148	26,109	29,707
Other Non Current Liabilities	10,926.0	12,500.0	12,500.0	12,500.0
Total Debt	-	-	-	-
Total Liabilities	36,377	37,549	40,510	44,108
Gross Block	12,284	13,170	14,370	15,570
Acc. Depreciation	6,485	8,397	10,487	12,746
Net Block	5,799	4,774	3,883	2,824
Capital WIP	637	950	950	950
Total Fixed Assets	8,728	8,124	7,233	6,174
Non Current Assets	5,141	5,174	5,229	5,301
Inventory	12,149	14,726	17,004	19,437
Debtors	4,719	5,572	6,264	7,161
Loans and Advances	8	8	8	8
Other Current Assets	4,189	4,649	5,226	5,974
Cash	20,317	19,726	22,250	43,280
Total Current Assets	51,877	56,514	64,204	91,172
Current Liabilities	3,135	3,423	3,848	4,399
Provisions	1,347	1,347	1,265	1,266
Total Current Liabilities	30,827	33,720	37,615	79,997
Net Current Assets	21,050	22,793	26,589	11,175
Total Assets	36,377	37,549	40,510	44,108

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
EPS	174.3	77.0	88.1	101.7
Cash per Share	607.6	295.0	332.7	946.2
BV	704.9	346.1	390.4	444.2
Dividend per share	40.0	22.5	26.0	30.0
Dividend payout ratio	23%	29%	29%	30%
EBITDA Margin	24.8	24.3	24.6	24.7
PAT Margin	21.6	17.7	18.0	18.2
RoE	24.7	22.2	22.6	22.9
RoCE	27.8	30.0	30.3	30.7
RoIC	150.3	150.3	153.9	(51.2)
EV / EBITDA	27.3	25.9	22.5	15.1
P/E	17.4	39.5	34.4	29.8
EV / Net Sales	6.8	6.3	5.5	3.7
Sales / Equity	1.1	1.3	1.3	1.3
Market Cap / Sales	7.5	7.0	6.2	5.4
Price to Book Value	4.3	8.8	7.8	6.8
Asset turnover	1.1	1.3	1.3	1.3
Debtors Turnover Ratio	5.8	5.6	5.5	5.6
Creditors Turnover Ratio	9.5	8.9	9.0	9.1
Debt / Equity	-	-	-	-
Current Ratio	1.7	1.8	1.9	1.9
Quick Ratio	0.7	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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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

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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. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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