

May 19, 2025

Supply chain issues behind; growth expected to pick up...

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 Rs. 1,84,000 crores as of FY25 (v/s Rs. 94000 crores in FY24)

Investment Rationale:

- Revenue growth expected to pick-up significantly; Order-book position remains strong:** We believe that HAL's revenue growth would pick-up substantially from this year, 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. Execution in Tejas Mk1A contract was delayed in FY25 due to GE-404 engine delivery issues, but improvement in execution is expected with ease in supply chain issues and commencement of engine deliveries. The company plans to deliver 12 aircraft this year, as GE is likely to provide 12 engines in CY25. Additionally, the ALH Dhruv grounding has been lifted for the army and air force, enabling the company to fulfil these orders. 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 at Rs 1.84 lakh crore (5.9x TTM revenue), provides healthy revenue growth visibility over FY26E-27E
- Order pipeline remains robust; longer-term growth outlook intact:** As per the management, orders pipeline remains robust for HAL with Rs 1 lakh crore worth of contracts are expected to be placed with the company in the coming 1-2 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, Dornier 228, and Dornier 228 (40 nos.) repair orders. 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 Rs. 20000 crores 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% & ~11% CAGR respectively over FY25-27E
- We recommend BUY on HAL with target price of ₹ 6100 per share (based on 40x FY27E EPS)

Key Financial Summary

(Year-End March)	FY22	FY23	FY24	FY25	3 Year CAGR (FY22-25)	FY26E	FY27E	2 Year CAGR (FY25-27E)
Revenues	24,620	26,927	30,381	30,981	8.0	35,601	40,939	15.0
EBITDA	5,409	6,679	9,741	9,608	21.1	10,668	12,476	14.0
EBITDA margin (%)	22.0	24.8	32.1	31.0		30.0	30.5	
PAT	5,080	5,828	7,621	8,364	18.1	8,847	10,204	10.5
EPS (Rs)	76.0	87.1	114.0	125.1		132.3	152.6	
P/E (x)	67.5	58.9	45.1	41.2		38.8	33.6	
EV/EBITDA (x)	60.8	39.3	26.3	26.3		20.3	16.5	
RoCE (%)	27.4	27.8	35.1	35.1		30.8	30.7	
RoE (%)	26.3	24.7	26.1	26.1		22.9	22.9	

Source: Company, ICICI Direct Research



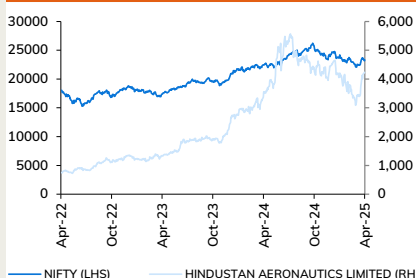
Particulars

Particular (Rs crore)	Amount
Market Capitalisation	3,42,948
Total Debt (FY25)	-
Cash	38,182
EV	3,04,766
52 Week H/L (Rs)	5675 / 3046
Equity Capital	334
Face Value	5

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	71.6	71.6	71.6	71.6
FII	11.7	11.9	12.3	12.1
DII	8.8	8.4	8.1	8.3
Others	7.9	8.1	8.0	8.0

Price Chart



Key risks

- (i) Dependent on govt contracts
- (ii) High working capital requirement
- (iii) Availability of key raw materials/components

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Q4 and FY25 Result Summary

- Revenue remained muted at Rs. 13700 crores (-7% YoY, +975 QoQ) in Q4FY25, however it was in-line with provisional estimates
- Revenue growth was impacted during the quarter on account of execution disruptions in Tejas Mk1A contract due to delays in engine delivery from GE and a temporary grounding of Advanced Light Helicopters (ALH) in the armed forces leading to delivery halting
- With the supply chain issues stabilising in the key manufacturing orders and capacities expansion, execution is expected to pick-up substantially in coming period.
- EBITDA margin was at 38.6% (-131 bps YoY), an improvement of 1447 bps on a QoQ basis
- PAT was down by 7.7% YoY to Rs. 3976 crore an increase of 176.2% on QoQ basis
- The FY25 revenue is up 2% YoY to Rs. 30981 crores with EBITDA margin standing at 31% (vs 32% in FY24). FY25 EBITDA is at Rs. 9608 crore and PAT is up 9.8% YoY to Rs. 8364 crores

Q4 and FY25 Earnings call highlights

- The revenue distribution for the year consists of 23% from manufacturing, 7% from design and development, and 70% from RoH, spares & exports
- Consolidated order backlog stands at Rs 1,84,000 (crore as of March' 25 (v/s Rs. 94000 crores in March' 24)
- The management expects an order inflow of Rs. 1,00,000 crores likely comprising Light combat Aircraft (LCA) Tejas Mk-1A (97 nos.), Light Utility Helicopters (LUH are 145 nos.), Dornier 228, and Dornier 228 (40 nos.) upgrade orders. The Repair and Overhaul (RoH) orders are expected to be Rs. 20000 crores
- The management provides a revenue guidance of 7-8%, EBITDA margin at 31% and operating margin at 27% for FY26E
- The organization is presently concentrating on cost optimization by enhancing capacity (helicopters, aircraft, trainers) and developing capabilities
- Regarding the F404 engine GE has resolved supply chain, delivering one in April 2024 and committing to eleven more in 2025. The company aims to deliver 12 aircraft this year and boost production to 24 units annually by FY26E
- Regarding the F414 engine the Transfer of Technology (ToT) is a key focus, with management aiming to conclude discussions by FY26E. The certification will take three years, plus two years for lead time. Production is set to start in FY31, with the first prototype due in Q1FY27, and delays are unlikely due to a spare engine's availability.
- On the ALF31P front, (240 engines), the first engine delivery was in September 2024. The production target is set at 30 engines annually, indicating an 8-year liquidation period and a current indigenisation level of 57%. Management aims to increase this level in collaboration with MIDHANI. Additionally, PTC Industries may join the supply chain due to their recent capacity expansion.
- The initial delivery of the Light Combat Helicopter (LCH) Prachand is projected to occur after three years, with management aiming for an annual production rate of 30 units at its Tumkur facility, which is expected to be exclusively allocated for the LCH and ALH.
- Currently, the entire fleet of ALH Dhruv orders is grounded, and management anticipates that this issue will be resolved by the end of FY26E, after which production is expected to commence.
- A total of 12 Su-30 aircraft are anticipated, with a lead time of two years. Production is scheduled to begin in FY27E and conclude in FY29E.

- Regarding the LUH, which is a limited production order (12 nos.), these orders have experienced delays but the IOC has been received for the same. In the interim, the company has proceeded to produce eight of these aircraft.
- Aircraft capacity is presently set at 24 units per annum, with two production lines located in Bangalore and one in Nashik. Management has indicated that by outsourcing fuselage components to the private sector, the capacity is expected to increase to 30 units. Helicopter capacity stands at 30 units in Tumkur and 30 units in Bangalore, which is sufficient to manage the current orders.
- The inventory period has risen to 253 days, which is essential for the production of 83 units of Tejas Mk-1A

Exhibit 1: Q4FY25 and FY25 result snapshot (₹ crore)

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments	FY25	FY24	YoY (%)
Operating Income	13,699.9	14,768.8	-7.2	6,957.3	96.9	Revenue growth was in line with provisional estimates	30,981.0	30,381.1	2.0
Other income	651.5	557.3	16.9	631.4			2,561.7	1,896.6	
Total Revenue	14,351.4	15,326.1		7,588.7			33,542.6	32,277.7	
Raw materials costs	4,970.0	4,848.2		3,421.0			12,288.0	11,059.1	
Employees Expenses	1,811.3	1,390.6		1,296.2			5,730.4	5,290.7	
Other Expenses	1,623.7	2,628.7		558			3,354.5	4,290.2	
Total Expenditure	8,405.0	8,867.5		5,275			21,372.9	20,640.0	
EBITDA	5,294.9	5,901.3	-10.3	1,682.5	214.7	Execution was impacted this year, primarily in production of LCAs and ALHs	9,608.1	9,741.1	-1.4
EBITDA margins (%)	38.6	40.0	-131 bps	24.2	1447 bps		31.0	32.1	-105 bps
Interest	8.4	31.4		0.1			8.7	32.1	
Depreciation	736.5	644.0		277.1			1,340.4	1,407.2	
Tax	1,242.0	1,486.3		602.4			2,503.2	2,603.9	
PAT	3,976.6	4,308.7	-7.7	1,439.8	176.2		8,364.1	7,621.0	9.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

Year-End March	FY24	FY25	FY26E	FY27E
Revenue	30,381	30,981	35,601	40,939
% Growth	12.8	2.0	14.9	15.0
Other income	1,896.6	2,561.7	2,817.9	3,113.7
Total Revenue	32,291	33,545	38,434	44,068
% Growth	12.9	3.9	14.6	14.7
Total Raw Material Costs	11,059	12,288	14,240	16,376
Employee Expenses	5,291	5,730	6,533	7,512
other expenses	4,290	3,354	4,160	4,575
Total Operating Expenditure	20,640	21,373	24,933	28,464
Operating Profit (EBITDA)	9,741	9,608	10,668	12,476
% Growth	45.8	(1.4)	11.0	16.9
Interest	32	9	9	9
PBDT	11,606	12,161	13,477	15,581
Depreciation	1,407	1,340	1,602	1,883
PBT before Exceptional Items	10,198	10,821	11,875	13,697
Total Tax	2,604	2,503	3,028	3,493
PAT before MI	7,621	8,364	8,847	10,204
PAT	7,621	8,364	8,847	10,204
% Growth	30.8	9.8	5.8	15.3
EPS	114.0	125.1	132.3	152.6

Source: Company, ICICI Direct Research

Exhibit 3: Cash Flow Statement

Year-End March	FY24	FY25	FY26E	FY27E
Profit after Tax	7,621	8,364	8,847	10,204
Depreciation	1,407	1,340	1,602	1,883
Interest	32	9	9	9
Cash Flow before WC changes	9,060	9,713	10,458	12,097
Changes in inventory	(1,069)	(8,458)	(3,196)	(3,730)
Changes in debtors	102	(31)	(717)	(804)
Changes in loans & Advances	(3)	3	-	-
Changes in other current assets	(1,143)	(3,013)	(1,267)	(1,441)
Net Increase in Current Assets	(5,026)	(15,326)	(7,268)	(8,717)
Changes in creditors	278	1,693	747	878
Changes in provisions	832	807	1,239	1,448
Net Inc in Current Liabilities	5,497	7,771	6,067	7,077
Net CF from Operating activities	9,532	2,158	9,257	10,456
Changes in deferred tax assets	(329)	(114)	-	-
(Purchase)/Sale of Fixed Assets	(1,689)	(1,685)	(3,000)	(3,000)
Net CF from Investing activities	(1,863)	12,615	(3,058)	(3,067)
Dividend and Dividend Tax	(1,505)	(1,505)	(2,006)	(2,274)
Net CF from Financing Activities	(1,553)	(1,553)	(3,293)	(3,469)
Net Cash flow	6,115	6,115	5,915	6,139
Opening Cash/Cash Equivalent	20,317	20,317	38,182	44,097
Closing Cash/ Cash Equivalent	26,432	26,432	44,097	50,237

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet

₹ crore

Year-End March	FY24	FY25	FY26E	FY27E
Equity Capital	334.4	334.4	334.4	334.4
Reserve and Surplus	28,804	34,647	40,903	48,656
Total Shareholders funds	29,138	34,982	41,237	48,990
Other Non Current Liabilities	10,543.8	24,820.6	24,820.6	24,820.6
Total Debt	-	-	-	-
Total Liabilities	41,771	62,172	68,427	76,180
Gross Block	13,672	15,203	18,294	21,294
Acc: Depreciation	7,892	9,232	10,834	12,718
Net Block	5,780	5,970	7,459	8,576
Capital WIP	937	1,091	1,091	1,091
Total Fixed Assets	8,475	9,313	10,802	11,919
Non Current Assets	4,256	4,650	4,708	4,775
Inventory	13,218	21,676	24,872	28,602
Debtors	4,617	4,648	5,365	6,169
Loans and Advances	11	7	7	7
Other Current Assets	5,333	8,345	9,612	11,054
Cash	26,432	38,182	44,097	50,237
Total Current Assets	63,017	90,095	92,547	1,05,318
Current Liabilities	3,413	5,106	5,852	6,730
Provisions	1,578	1,265	1,266	1,267
Total Current Liabilities	36,324	44,095	50,162	57,239
Net Current Assets	26,693	26,693	50,983	57,819
Total Assets	41,771	41,771	68,427	76,180

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

Year-End March	FY24	FY25	FY26E	FY27E
EPS	114.0	125.1	132.3	152.6
Cash per Share	395.2	395.2	659.4	751.2
BV	435.7	435.7	616.6	732.5
Dividend per share	22.5	22.5	30.0	34.0
Dividend payout ratio	20%	18%	23%	22%
EBITDA Margin	32.1	31.0	30.0	30.5
PAT Margin	25.1	27.0	24.9	24.9
RoE	26.1	26.1	22.9	22.9
RoCE	35.1	35.1	30.8	30.7
EV / EBITDA	26.3	26.3	20.3	16.5
P/E	45.1	41.2	38.8	33.6
EV / Net Sales	8.4	8.4	6.4	5.4
Sales / Equity	1.0	1.0	0.9	0.9
Market Cap / Sales	11.3	11.1	9.6	8.4
Price to Book Value	9.7	9.7	6.9	5.8
Asset turnover	1.0	1.0	0.9	0.9
Debtors Turnover Ratio	6.5	6.7	7.1	7.1
Creditors Turnover Ratio	9.3	7.3	6.5	6.5
Debt / Equity	-	-	-	-
Current Ratio	1.7	2.1	2.2	2.2
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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