

Price: 4,319

Recommendation: Buy

Industry: Aerospace & Defense

Sector: Industrials

Report Date: 03-Apr-2025

Hindustan Aeronautics Limited (HAL) has shown resilience and innovation in FY23-24, achieving a 13% revenue increase to 30,381 crores. Surpassing growth targets, HAL's strong order book and pipeline sustain momentum. Cost optimization reduced manpower costs from 23% to 17% and overheads from 8% to 4.66%, enhancing profitability. HAL focuses on capacity and capability building, investing in procurement, CAPEX, and R&D.; With a robust order book, HAL aims to expand exports and address supply chain challenges.

Sales		Profit & Loss		Profitability Matrix	
Current Year	32050 Cr	Operating Profit(Year)	10201 Cr	Operating Profit Margin	31.8 %
Previous Year	26928 Cr	Operating Profit(Quarter)	1681 Cr	EBITDA Margin	36.32 %
Current Quarter	6957 Cr	PAT (Year)	7591 Cr	Net Profit Margin	25.0 %
Previous Quarter	5977 Cr	PAT (Quarter)	1433 Cr	EPS	129
Revenue (QYoY)	6061 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	33.4	Sales Growth	14.0 %	Sales Growth	16.4 %
PEG Ratio	1.26	PAT Growth	30.68 %	Sales Growth QYoY	14.78 %
EV/EBITDA	20.5	EPS Growth	13.16 %	PAT Growth	-3.57 %
P/B	9.29	Dividend Yield	0.81	PAT Growth QYoY	14.27 %
Capital Allocation		Holdings		Leverage	
RoE	28.9 %	Promoter	71.6 %	Debt/Equity	0.00
RoA	10.1 %	FII	12.3 %	Debt	0.37 Cr
RoCE	38.9 %	DII	8.13 %	Market Cap	288850 Cr
RoIC	21.0 %	Public	7.95 %	Enterprise value	259950 Cr
		No of Shares	66.9 Cr	Cash Equivalents	28900 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

Hindustan Aeronautics Limited (HAL) has demonstrated resilience and innovation in FY23-24, achieving a revenue increase of 13% to 30,381 crores. The company surpassed its double-digit growth target a year ahead of schedule, driven by the delivery of LCA aircraft. HAL's robust order book and strong pipeline are expected to sustain this growth momentum. The company has focused on cost optimization, reducing manpower costs from 23% to 17% of revenue and overhead expenditure from 8% to 4.66%. These efforts have improved profitability and positioned HAL to offer affordable platforms and services to customers.

HAL is pursuing two major strategic areas: capacity building and capability building. The company is investing in proactive procurement, strengthening CAPEX, and increasing R&D; investments. Initiatives include the procurement and manufacturing of platforms like Dornier, Light Utility Helicopters, and AL-31 FP engines. HAL has delivered two Dorniers to Guyana and six ALHs to the Army within tight timelines. The company is also investing in greenfield projects and capacity augmentation, such as the new helicopter factory in Tumakuru and the third LCA line in Nashik, expected to be operational by October 2024. These efforts aim to expedite delivery and meet customer requirements.

Looking ahead, HAL's order book stands at 94,000 crores, with expectations to reach 1,20,000 crores by March 2025. The company anticipates contracts for LCA Mark 1A, Light Combat Helicopters, and Advanced Light Helicopters, with an aggregate value of 1,60,000 to 1,70,000 crores. These orders will keep manufacturing lines occupied until 2032, propelling HAL into the next growth trajectory. The company plans to scale up deliveries of LCA Mark 1A and Light Utility Helicopters in FY24-25, with HTT-40 and Civil ALH deliveries commencing in FY25-26. HAL is also focusing on export opportunities, with discussions underway with countries like the Philippines, Argentina, and Nigeria.

While HAL's future appears promising, there are areas for improvement. The company should continue to enhance its export capabilities, as current export sales are only 1% of total revenue. Additionally, HAL must address supply chain challenges to ensure timely delivery of LCA Mark 1A aircraft. The company should also focus on increasing the indigenous content of its platforms, aiming for 65% in the LCA Mark 1A program. By addressing these areas, HAL can further strengthen its position as a global aerospace leader and continue to create value for shareholders.

HAL Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Azad Engineering	8866.79	115.67	12.12%	8.02%	35.02%	13.60%	41.11%
Bharat Dynamics	49412.75	87.36	17.90%	52.75%	38.32%	20.08%	8.96%
Unimech Aero.	4914.28	84.66	73.75%	-12.29%	-16.72%	-13.74%	-23.60%
MTAR Technologie	4093.19	91.53	8.37%	-8.27%	47.56%	-13.05%	54.64%
Paras Defence	4074.51	81.07	7.00%	-1.52%	33.64%	9.06%	136.35%

Aspect	Commentary
Revenue	The company achieved a significant revenue increase, reflecting strong sales performance and effective market strategies. This growth is indicative of robust demand and successful execution of business plans, positioning the company well for future expansion and market penetration.
Profit & Loss	The profit and loss statement shows a healthy operating profit and net profit, indicating efficient cost management and strong revenue generation. The company's ability to maintain profitability amidst market challenges highlights its operational resilience and strategic foresight.
Profitability Matrix	The profitability metrics reveal strong margins, underscoring the company's ability to convert sales into actual profit. High operating and net profit margins suggest effective cost control and pricing strategies, enhancing shareholder value and financial stability.
Valuation Matrix	Valuation metrics indicate a fair market valuation with a reasonable P/E ratio, suggesting investor confidence in the company's growth prospects. The PEG ratio reflects balanced growth expectations, while the EV/EBITDA ratio supports a solid enterprise valuation.
Growth (YoY)	Year-over-year growth metrics demonstrate impressive sales and profit growth, reflecting successful strategic initiatives and market expansion. The company's ability to sustain growth momentum is a positive indicator of its competitive positioning and market adaptability.
Growth (QoQ)	Quarter-over-quarter growth shows a positive trend in sales, though profit growth is slightly negative, indicating potential short-term challenges. This suggests the need for strategic adjustments to maintain profitability while continuing to drive sales growth.
Capital Allocation	Capital allocation metrics highlight strong returns on equity and assets, reflecting efficient use of capital and investment strategies. The company's focus on maximizing shareholder returns through strategic investments and cost management is evident.
Holdings	The holdings structure shows a strong promoter holding, indicating confidence in the company's future prospects. Institutional and public holdings reflect a balanced investor base, supporting market stability and potential for future capital raising.
Leverage	The leverage metrics indicate a low debt level, suggesting a conservative financial strategy and strong balance sheet. This positions the company well to withstand economic fluctuations and pursue growth opportunities without significant financial constraints.

Analyst viewpoint: Hindustan Aeronautics Limited (HAL) continues to demonstrate a bullish trajectory, fortified by a commendable QoQ sales growth of 16.4%. The company's execution in enhancing efficiency has been underscored with a trailing P/E ratio of 33.4, reflecting sound investor confidence in its growth outlook. These metrics, alongside notable capital allocation efficacy, portray HAL's strategic capital management as demonstrated by a substantial RoE of 28.9% and RoCE of 38.9%. Our optimistic stance is further buoyed by the high operating profit margins, reported at 31.8%, indicative of the company's robust ability to stabilize and diversify revenue streams strategically and adaptively, thereby ensuring sustained operational success. HAL's proactive initiatives in capacity and capability building, coupled with its strong order pipeline, notably in manufacturing platforms, align with the promising growth trajectory expected in the short to mid-term.

While small, a potential constraint to monitor is the relatively minor export sales, currently at 1% of revenue, which highlights an area for potential expansion. HAL's strategic focus should remain on enhancing its export capabilities, which will not only boost revenue but also broaden its global footprint and market share. By continuing its innovation trajectory and addressing supply chain challenges, HAL is poised to reinforce its leading position in the aerospace sector drastically. As such, we anticipate continued strong performance and recommend a bullish stance for investors looking to leverage short to mid-term gains.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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