



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

## Company details

Market cap:	Rs. 2,99,812 cr
52-week high/low:	Rs. 5,675/2584
NSE volume: (No of shares)	12.4 lakh
BSE code:	541154
NSE code:	HAL
Free float: (No of shares)	19.0 cr

## Shareholding (%)

Promoters	71.6
FII	11.9
DII	8.4
Others	8.1

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	9.7	0.6	-15.6	59.4
Relative to Sensex	6.4	4.1	-19.3	46.9

Source: Mirae Asset Sharekhan Research, Bloomberg

# Hindustan Aeronautics Ltd

## Significant order gain; Maintain Buy

Capital Goods	Sharekhan code: HAL	
Reco/View: Positive	↔	CMP: Rs. 4,483
		Upside potential: 22%
	↑ Upgrade	↔ Maintain
		↓ Downgrade

## Summary

- Ministry of Defence has signed a contract with HAL for the supply of 12 Su-30 MKI aircraft worth Rs. 13,500 crore helping HAL further build up on the already strong order backlog of Rs. 1.2 lakh crore to Rs. 1.35 lakh crore.
- The company has a strong order pipeline worth Rs. 1.6 lakh crore over 4-5 years. This provides good low double-digit CAGR revenue growth visibility over the next few years.
- The government's push for the purchase of domestic defense aircraft will create long-term sustainable demand growth as it is India's main supplier of military aircraft. HAL has identified several indigenisation programmes and earmarked funds to create additional capacity for engines, avionics, and accessories.
- HAL has strong government support, a good order book, and proven execution capabilities. The stock currently trades at ~30x its FY2027E EPS. We have a Positive view on the stock and expect an upside of 22%.

**The Ministry of Defence has signed a contract with HAL for the supply of 12 Su-30 MKI aircraft worth Rs. 13,500 crore, helping HAL further build up on its already strong order backlog of Rs. 1.2 lakh crore to Rs. 1.35 lakh crore (4x its TTM revenue). HAL has received manufacturing orders worth ₹40,000 crore YTD, which is 40% of its FY2025 order intake guidance of Rs. 1 lakh crore. HAL's management expects FY2025 revenue to grow at 13% YoY on increased manufacturing sales, as it sees delivery of Tejas Mk 1A from the next quarter. The upside would be impacted in FY2025 revenue due to concerns about the supply chain for the largest contract in the backlog.**

**Significant Order Gain:** The Ministry of Defence has entered a contract worth Rs. 13,500 crore with HAL for buying 12 Su-30MKI aircraft. The deal contributes to the government's AatmaNirbhar Bharat push, with 62.6% of the aircraft comprising indigenous components from India's defence industry. The jets will greatly improve the combat readiness of the Indian Air Force, thus improving India's defense preparedness. HAL has received manufacturing orders worth Rs. 40,000 crore YTD, which is 40% of its FY2025 order intake guidance of Rs. 1 lakh crore. Earlier to this order, HAL received the order to manufacture 240 AL-31FP aero engines for Indian Air Force's (IAF) Su-30MKI fighter jets worth Rs. 26,000 crore.

**Order book and order pipeline are promising:** The large orders bagged as of YTD FY2025 lead the order book to Rs. 1.35 lakh crore, presenting a clear visibility of 4x revenue potential over FY2024 revenue base. Additionally, the order pipeline is strong with orders worth ~Rs. 40,000 crore for ALH (25), LUH (12), and RD-33 engines (80) being in advanced stages of finalisation. Even the long-term order pipeline continues to remain robust with projects like a) Tejas MK II, b) Advanced Medium Combat Aircraft (AMCA), c) Twin Engine Deck Based Fighter (TEDBF), d) Indian Multirole Helicopter (IMRH), e) LCH, and f) Advanced Light Helicopter (ALH) expected to provide HAL with a business opportunity of Rs. 4.5 lakh crore over the next decade.

**Growth Outlook:** With strong orderbook visibility, manufacturing revenue should grow in double digits for the next few years. ROH revenue will grow at a normal pace of 8-9% and blended revenue growth will be in low double digits. Although in the short term with the delay in manufacturing of Tejas LCA Mk-1A aircraft, growth expectations might not materialise but they are on course for the medium-long term. Near-term financials may seem a bit volatile on account of supply chain challenges the company has been facing to execute the large Tejas Mk-1 A orders. Management expects FY2025 revenue to grow at 13% y-o-y on account of increased manufacturing sales, as it sees delivery of Tejas Mk-1A from September quarter. The upside would be impacted in FY2025 revenue due to concerns about the supply chain for the largest contract in the backlog.

## Our Call

**Valuation – Maintain a Positive view; expect 22% upside:** We are bullish on HAL's growth trajectory as it is one of the key beneficiaries of structural reforms in the defence sector. The company had a healthy order book of ~Rs. 1.35 lakh crore as of Q2 and a good order pipeline, which provides growth visibility till 2032. The stock is currently trading at 27x its FY2027E EPS. With the recent correction in the stock price and strong order book with a robust inquiry pipeline, we maintain our Positive view on the stock and expect an upside of 22% from the CMP.

## Key Risks

- Fluctuations in raw-material prices and delays in the availability of critical components could impact execution.
- Opening up the defence sector to private players may intensify competition in future.

## Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net sales (Rs. cr)	26,927	30,381	33,859	43,339	49,208
OPM (%)	24.8	27.1	26.6	27.3	27.3
Adjusted Net profit (Rs. cr)	4,851	6,477	6,814	8,761	9,995
PAT growth (%)	24.8	33.5	5.2	28.6	14.1
Adjusted EPS (Rs.)	72.5	96.8	101.9	131.0	149.4
PER (x)	61.9	46.4	44.1	34.3	30.1
P/B (x)	12.7	10.3	9.0	7.7	6.5
EV/EBITDA (x)	33.4	23.4	24.5	18.8	16.6
RoCE (%)	30.6	38.8	29.2	32.4	31.4
RoE (%)	22.6	24.6	21.8	24.2	23.5

Source: Mirae Asset Sharekhan Research Estimates

**Outlook and Valuation**

**■ Sector Outlook – Indian defence sector in a sweet spot**

India is one of the biggest importers of defence equipment as it imports ~50% of its requirements and accounts for ~10% of global arms imports. The government aims to reduce its dependence on imports and boost domestic production through various innovations and advancements in the defence sector under the AtmaNirbhar Bharat vision of the government. Measures such as simplifying the procedure for the procurement of defence products, provision for funding of up to 70% of development cost by the government, and hike in FDI to 74% through the automatic route would boost investments in the sector. The current uncertain international (Russia-Ukraine war and Middle East Tensions) and domestic (J&K) geopolitical scenario calls for the strengthening of national security, which should lead to a significant rise in India's defence expenditure going forward. India would gradually ban several imported components through positive indigenisation lists to reduce imports. This compels Indian armed forces, comprising the army, navy, and air force, to source the listed items from domestic manufacturers exclusively. Moreover, the Indian government has set an ambitious defence production target of USD25 billion by 2025 (including USD5 billion from exports by 2025). Thus, the government's focus on the defence sector bodes well for companies like HAL, BEL, and Bharat Dynamics, which are the leading defence PSUs with several years of execution expertise in the domain.

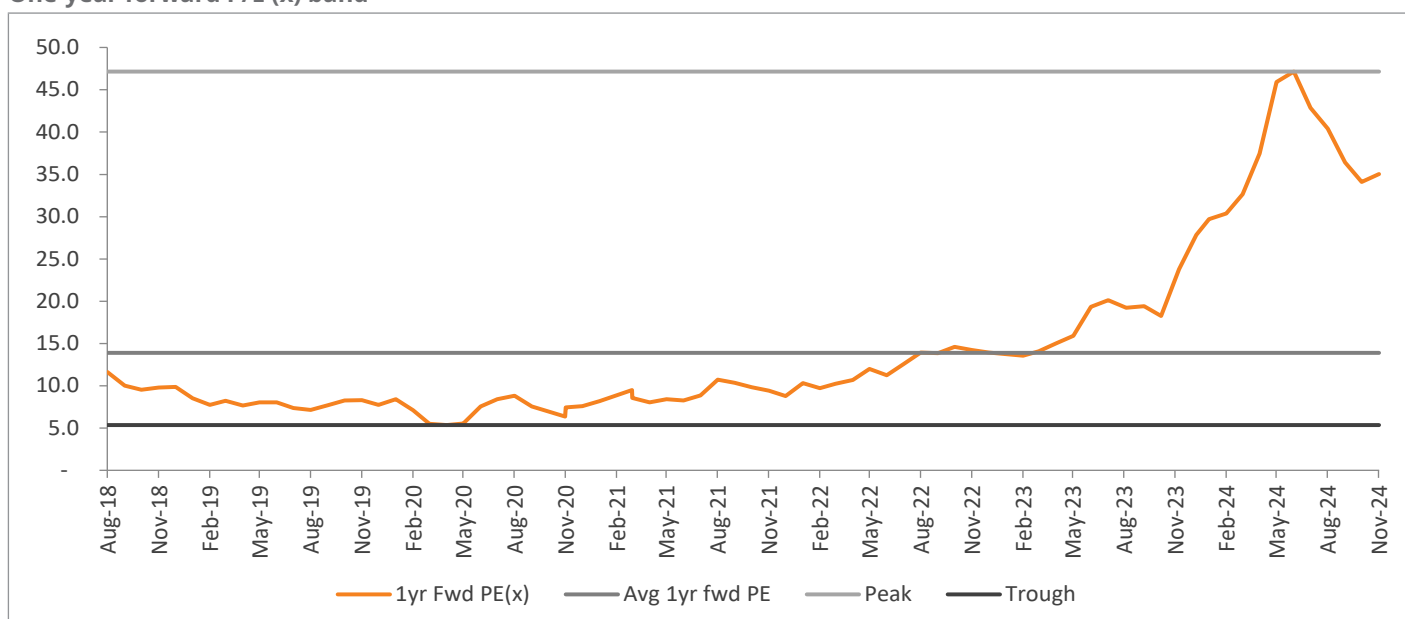
**■ Company Outlook – On a strong footing**

The government holds the majority stake in HAL. The company has a strategic place in India's defence story as it is a dominant supplier of aircraft, helicopters, engines, avionics, and accessories. The company is also the main provider of maintenance, repair, and overhaul services to Indian defence forces. HAL has a strong order book of ~Rs. 1.35 lakh crore with an impressive order pipeline. The company is the key beneficiary of the Indian government's focus on reforming the defence sector with a major push for indigenisation. HAL is looking to diversify into the civil market for manufacturing and MRO opportunities. HAL plans to enhance indigenisation and ensure higher indigenous content in its products. The company would also expand its operations globally through collaborations with global partners. Hence, we believe HAL is on a solid growth trajectory.

**■ View – Maintain a Positive view; expect 22% upside**

We are bullish on HAL's growth trajectory as it is one of the key beneficiaries of structural reforms in the defence sector. The company had a healthy order book of ~Rs. 1.35 lakh crore as of Q2 and a good order pipeline, which provides growth visibility till 2032. The stock is currently trading at 27x its FY2027E EPS. With the recent correction in the stock price and strong order book with a robust inquiry pipeline, we maintain our Positive view on the stock and expect an upside of 22% from the CMP.

**One-year forward P/E (x) band**



Source: Company; Mirae Asset Sharekhan Research

## About the company

HAL is an Indian state-owned aerospace and defence company headquartered in Bengaluru, India. Established in December 1940, HAL is one of the oldest and largest aerospace and defence manufacturers in the world today. HAL was conferred Navratna status in 2007. The company is involved in designing, developing, manufacturing, repairing, and overhauling aircraft, helicopters, engines, and related systems like avionics, instruments, and accessories. HAL has 20 production divisions and 10 R&D centres co-located with the production divisions. These divisions/R&D centres are located at nine geographic locations in seven states across the country. One of the key thrust areas of HAL is indigenisation with the primary objective of achieving 'Make in India' and lowering dependence on foreign countries, especially for critical components. HAL's primary consumers are the Indian Defence Forces comprising the Indian Air Force, Indian Army, Indian Navy, and the Indian Coast Guard.

## Investment theme

India's defence sector is undergoing major reforms as the government is keen on strengthening the nation's defence prowess by reducing dependence on imports and making India more self-reliant. The government's focus on the 'Make in India' initiative bodes well for HAL, which is a leading player in India's defence and aerospace industry and is well placed for growth backed by a strong order book and promising order pipeline. We expect HAL to have a crucial role to play in the structural transformation of India's defence sector, which aims to achieve a production target of USD25 billion by 2025 through indigenisation and boosting exports under the 'Make in India' initiative. The company has a diversified revenue mix covering the manufacturing of aircraft/products as well as spares and services and repair and overhaul (ROH).

## Key Risks

- ♦ Fluctuations in raw-material prices and delays in the availability of critical components could impact execution.
- ♦ Opening up of the defence sector to private players may intensify competition.

## Additional Data

### Key management personnel

DR. D.K Sunil	Chairman and Managing Director
C.B. Ananthakrishnan	Director Finance and CFO
Shailesh Bansal	Company Secretary and Compliance Officer

Source: Bloomberg

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	2.24
2	FMR LLC	1.69
3	HDFC Asset Management Co. Ltd.	1.3
4	Blackrock Inc.	1.15
5	The Vanguard Group Inc.	1.14
6	Nippon Life India Asset Management	0.58
7	ICICI Prudential Asset Management	0.54
8	Axis Asset Management Co. Ltd./India	0.47
9	Norges Bank	0.32
10	Kotak Mahindra Asset Management Co.	0.29

Source: Bloomberg

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## Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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