

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		↔	

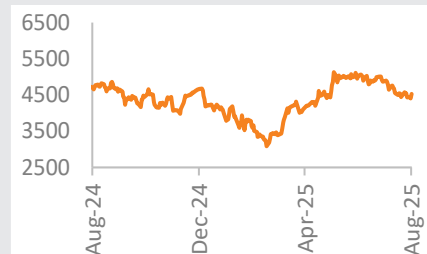
Company details

Market cap:	Rs. 3,02,688 cr
52-week high/low:	Rs. 5,166/3,046
NSE volume: (No of shares)	39.9 lakh
BSE code:	541154
NSE code:	HAL
Free float: (No of shares)	19.0 cr

Shareholding (%)

Promoters	71.6
FII	11.9
DII	8.7
Others	7.7

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-7.0	-7.0	18.5	-3.7
Relative to Sensex	-4.6	-4.8	14.6	-5.7

Source: Mirae Asset Sharekhan Research, Bloomberg

Hindustan Aeronautics Ltd

Long-term outlook intact

Capital Goods	Sharekhan code: HAL			
Reco/View: Positive	↔	CMP: Rs. 4,526	Upside potential: 33%	↔

Summary

- Revenues rose by 11%, while OPM surged 387 bps and drove up operating profit by 30% to Rs 1,285 crore. PAT remained flat.
- Order book is robust with a strong order pipeline of Rs. 1.0 lakh crore in 1-2 years. This provides good double-digit revenue growth visibility over the next few years.
- Engine supplies is ramping up from GE side, leading to deliveries of Tejas Mk1A will drive growth.
- HAL plays a very prominent play in India's defence indigenisation story and a strong order book and proven execution capabilities. The stock has corrected from highs and trades at attractive valuations of 28x its FY2027E EPS, hence we stay Positive on the stock and expect an upside of 33% factoring a revenue/ PAT CAGR growth of 16%/ 13% respectively.

Revenue stood at Rs. 4,819 crore, up 11% y-o-y slightly below our estimates of Rs 5,000 crore. Margins surprised us, rising 387 bps to 26.7% vs our expectations of 24%. Higher tax outflows as compared to Q1FY25 led the PAT flat y-o-y. HAL is investing in building capacities, particularly for programs like LCA Mk2, GE-414 engines, etc. IAF's plan to procure additional 97 LCA aircraft provides strong revenue visibility. Order pipeline of Rs 1 lakh crore includes a contract for 97 LCA Mk-IA, Do-228 (10 units), 43 ALH Dhruv, 60 utility helicopters for marine. We expect the GE engines supply to ramp up leading to accelerating delivering of Tejas Mk1A aircrafts to IAF. We expect six aircraft to be delivered in FY26 and 16 from FY27. As order momentum and strong execution are on schedule, we expect the deliveries of aircraft to drive the growth. The management has guided a conservative revenue growth of 8-10% citing the certain contract amendments and would revisit the guidance basis actual performance over H1FY26. HAL will be able to manufacture 24 LCAs in the coming years and targets to manufacture 30 taking help of private players from 2027-2028. In the past two months, DAC has accorded approvals for projects worth Rs 1.7 lakh crore and HAL to be one of the key beneficiaries of these projects including the MALE UAVs.

Key positives

- Margins rose 387 bps to 26.7%.
- HAL has received the second engine from GE and is expected to deliver total 6 aircrafts to IAF.
- Robust order book of Rs 1.8 lakh crore.

Our Call

Valuation – Maintain a Positive view; expect 33% 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 and a promising order pipeline, which provides growth visibility till 2032. The next leg of growth will be from accelerating of the Tejas Mk1A deliveries. The stock trades at 28x its FY2027E EPS. With the strong order book with a strong inquiry pipeline, we maintain our positive view of the stock and expect an upside of 17% from CMP factoring a revenue/ PAT CAGR growth of 16%/ 13%, respectively.

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	Rs cr				
	FY23	FY24	FY25	FY26E	FY27E
Net sales (Rs cr)	26,927	30,381	30,981	36,156	41,734
OPM (%)	24.8	27.1	31.0	31.3	31.5
Adjusted Net profit (Rs cr)	4,851	6,477	8,358	9,427	10,688
PATgrowth (%)	24.8	33.5	29.0	12.8	13.4
Adjusted EPS (Rs)	72.5	96.8	125.0	141.0	159.8
PER (x)	62.0	46.5	36.0	31.9	28.2
P/B (x)	12.8	10.3	8.6	7.3	6.1
EV/EBIDTA (x)	33.4	23.5	21.4	19.6	18.1
RoCE (%)	30.6	38.8	33.8	32.5	31.5
RoE (%)	22.6	24.6	26.1	24.7	23.6

Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated)

Particulars						Rs cr
	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	
Net Sales	4,819	4,348	10.8	13,700	-64.8	
Operating profit	1,285	991	29.7	5,305	-75.8	
Other Income	747	736	1.5	652	14.7	
Interest	0	0	114.3	8	-96.4	
Depreciation	185	149	24.1	736	-74.9	
PBT	1,844	1,578	16.9	5,202	-64.5	
Tax	471	147	221.0	1,242	-62.1	
Reported PAT	1,384	1,437	-3.7	3,977	-65.2	
Adjusted PAT	1,384	1,437	-3.7	3,959	-65.0	
Adj. EPS (Rs.)	20.7	21.5	-3.7	59.2	-65.0	
Margin			BPS		BPS	
OPM (%)	26.7	22.8	387	38.7	-1206	
NPM (%)	28.7	33.1	-434	28.9	-18	
Tax rate (%)	25.5	9.3	1622	23.9	164	

Source: Company; Mirae Asset Sharekhan Research

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 government's vision of AtmaNirbhar Bharat. Measures such as simplifying the procedure for the procurement of defence products, providing funding for up to 70% of development cost by the government, and a 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 (Jammu & Kashmir) geopolitical scenario calls for 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 \$25 billion by 2025 (including \$5 billion from exports by 2025). Thus, the government's focus on the defence sector bodes well for companies like HAL, BEL, and Bharat Dynamics, the leading defence PSUs with several years of execution expertise in the domain.

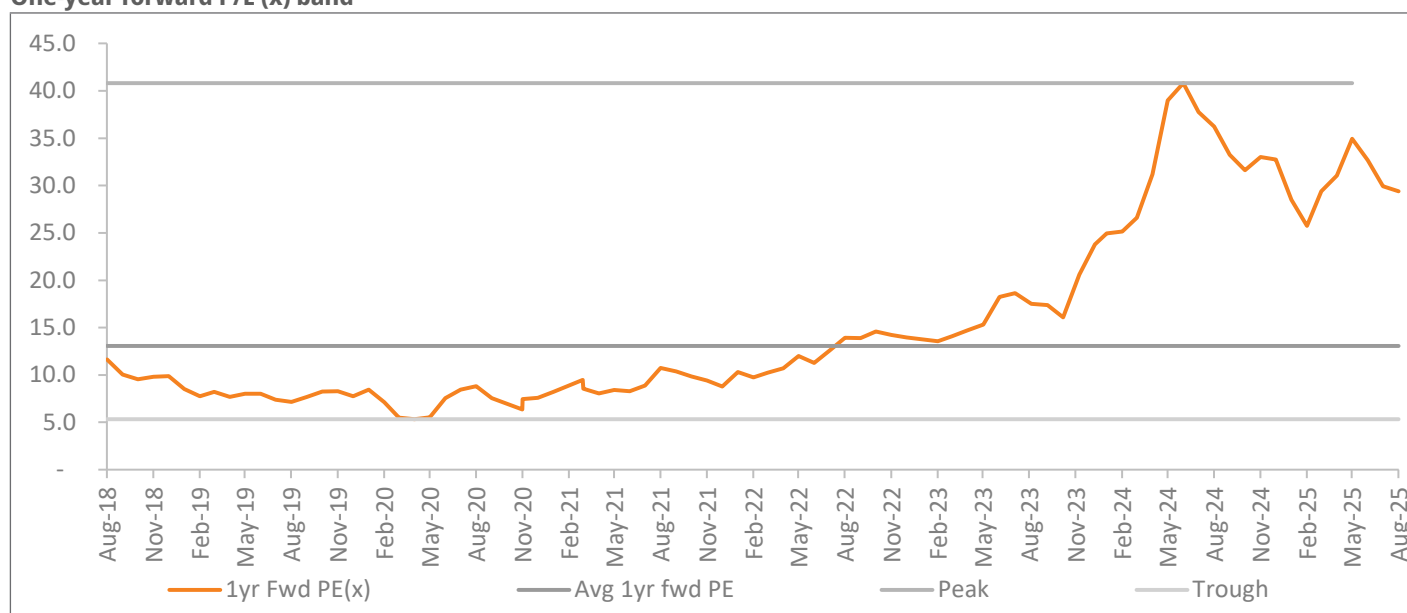
Company Outlook – On a firm footing

The government is the majority stakeholder 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. It is also the primary, leading provider of maintenance, repair, and overhaul services to the Indian defence forces. HAL has a strong order book of ~Rs. 94,000 crore with an impressive order pipeline. It is the key beneficiary of the Indian government's focus on reforming the defence sector with a significant push for indigenisation. HAL diversify looking forward to diversifying into the civil market for manufacturing and MRO opportunities. It plans to enhance indigenisation and ensure higher indigenous content in its products. It would also expand its operations globally through collaborations with global partners. Hence, we believe HAL is on a solid growth trajectory.

Valuation – Maintain a Positive view; expect 33% 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 and a promising order pipeline, which provides growth visibility till 2032. The next leg of growth will be from accelerating of the Tejas Mk1A deliveries. The stock trades at 28x its FY2027E EPS. With the strong order book with a strong inquiry pipeline, we maintain our positive view of the stock and expect an upside of 17% from CMP factoring a revenue/ PAT CAGR growth of 16%/ 13%, respectively.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

HAL is 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 that are 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, which are comprised of the Indian Air Force, Indian Army, Indian Navy, and the Indian Coast Guard.

Investment theme

India's defence sector is undergoing significant 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, 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 in the structural transformation of India's defence sector, which aims to achieve a production target of US\$25 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, 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

Name	Designation
Dr D.K Sunil	Chairman and Managing Director
Barenya Senapati	Director of Finance and CFO
Shailesh Bansal	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	2.77
2	FMR LLC	2.00
3	Vanguard Group Inc/The	1.19
4	Blackrock Inc	1.03
5	HDFC Asset Management Co Ltd	0.79
6	Nippon Life India Asset Management	0.51
7	ICICI Prudential Asset Management	0.44
8	Axis Asset Management Co Ltd/India	0.44
9	Motilal Oswal Asset Management Co	0.42
10	JPMorgan Chase & Co	0.39

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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