


3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive	= Neutral	- Negative	

What has changed in 3R MATRIX

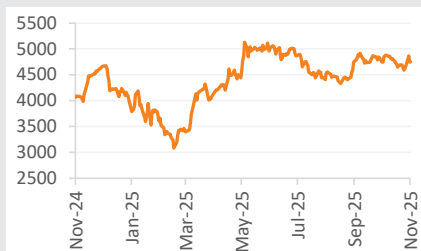
	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

Company details

Market cap:	Rs. 3,17,668 cr
52-week high/low:	Rs. 5,166/3046
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	12.0
DII	8.7
Others	7.7

Price chart


Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	0.1	4.3	7.0	16.8
Relative to Sensex	-2.5	-0.5	2.9	8.5

Source: Mirae Asset Sharekhan Research, Bloomberg

Hindustan Aeronautics Ltd

Execution ramp-up eyed in 2027

Capital Goods	Sharekhan code: HAL			
Reco/View: Positive ↔	CMP: Rs. 4,750	Upside potential: 26%	↔	

Summary

- Revenues rose 11% on execution of helicopter orders and MRO activities. Margins shrunk 400 bps to 23.5% on account of on rise in raw material cost and liquidated damages.
- Robust order of Rs 2.7 lakh crore offers double-digit revenue growth visibility over the next few years.
- Ramp-up in deliveries of Tejas Mk1A would to drive revenues going forward.
- The company has a healthy order book and a promising order pipeline, which provides growth visibility till 2032, hence we stay Positive on the stock and expect an upside of 26% factoring a revenue/ PAT CAGR growth of 25%/18% over FY25-28, respectively.

Revenue stood at Rs. 6,628 crore, up 11% y-o-y, slightly lagging estimates of Rs 6,800 crore. Margins disappointed, falling 400 bps on a rise in raw material cost and provisions. HNAL secured a contract worth Rs 62,400 crore for 97 LCA Tejas Mk1A fighter jets, expanding its backlog to Rs 2.7 Lakh crore. Deliveries are scheduled to commence in FY28 and will be completed in six years. Order pipeline includes a contract for Do-228 (10 units), 43 ALH Dhruv, 60 utility helicopters for marine. As order momentum and strong execution are on schedule, we expect aircraft deliveries to drive growth. 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. Company has also signed an MoU with Russia's Public Joint Stock Company United Aircraft Corporation (PJSC-UAC) for the production of the SJ-100 civil commuter aircraft in India. In the past two months, DAC has accorded approvals for projects worth Rs 1.0 lakh crore and HAL to be one of the key beneficiaries of these projects including the MALE UAVs.

Key positives

- Order book of Rs 2.7 Lakh crore provides a strong revenue growth visibility.

Key negatives

- Margins declined by 400 bps to 23.5% on a rise in RM expenses and liquidated damages

Our Call

Valuation – Maintain a Positive view; expect 26% 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 has 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 27x its FY2028E EPS. With the strong order book with a strong inquiry pipeline, we maintain our positive view of the stock and expect an upside of 26% from CMP factoring a revenue/ PAT CAGR growth of 25%/ 18%, respectively.

Key Risks

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

Valuation (Consolidated)

	Rs cr				
Particulars	FY24	FY25	FY26	FY27E	FY28E
Net sales (Rs cr)	30,381	30,981	35,021	41,018	48,545
OPM (%)	27.1	31.0	29.8	30.1	30.5
Adjusted Net profit (Rs cr)	6,477	8,358	8,758	9,985	11,682
PATgrowth (%)	33.5	29.0	4.8	14.0	17.0
Adjusted EPS (Rs)	96.8	125.0	131.0	149.3	174.7
PER (x)	49.1	38.1	36.3	31.9	27.2
P/B (x)	10.9	9.1	7.8	6.7	5.6
EV/EBIDTA (x)	24.9	22.9	19.6	18.1	18.1
RoCE (%)	38.8	33.8	30.5	30.1	29.9
RoE (%)	24.6	26.1	23.1	22.6	22.4

Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated)

Particulars						Rs cr
	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	
Net Sales	6,628	5,977	10.9	4,819	37.5	
Operating profit	1,559	1,645	-5.2	1,285	21.4	
Other Income	889	542	63.9	747	19.0	
Interest	0	0	1600.0	0	13.3	
Depreciation	225	178	26.9	185	21.7	
PBT	2,220	2,004	10.8	1,844	20.4	
Tax	558	512	8.9	471	18.6	
Reported PAT	1,670	1,504	11.1	1,384	20.7	
Adjusted PAT	1,670	1,504	11.1	1,384	20.7	
Adj. EPS (Rs.)	25.0	22.5	11.1	20.7	20.7	
Margin			BPS		BPS	
OPM (%)	23.5	27.5	-400	26.7	-314	
NPM (%)	25.2	25.2	3	28.7	-352	
Tax rate (%)	25.1	25.6	-43	25.5	-39	

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.

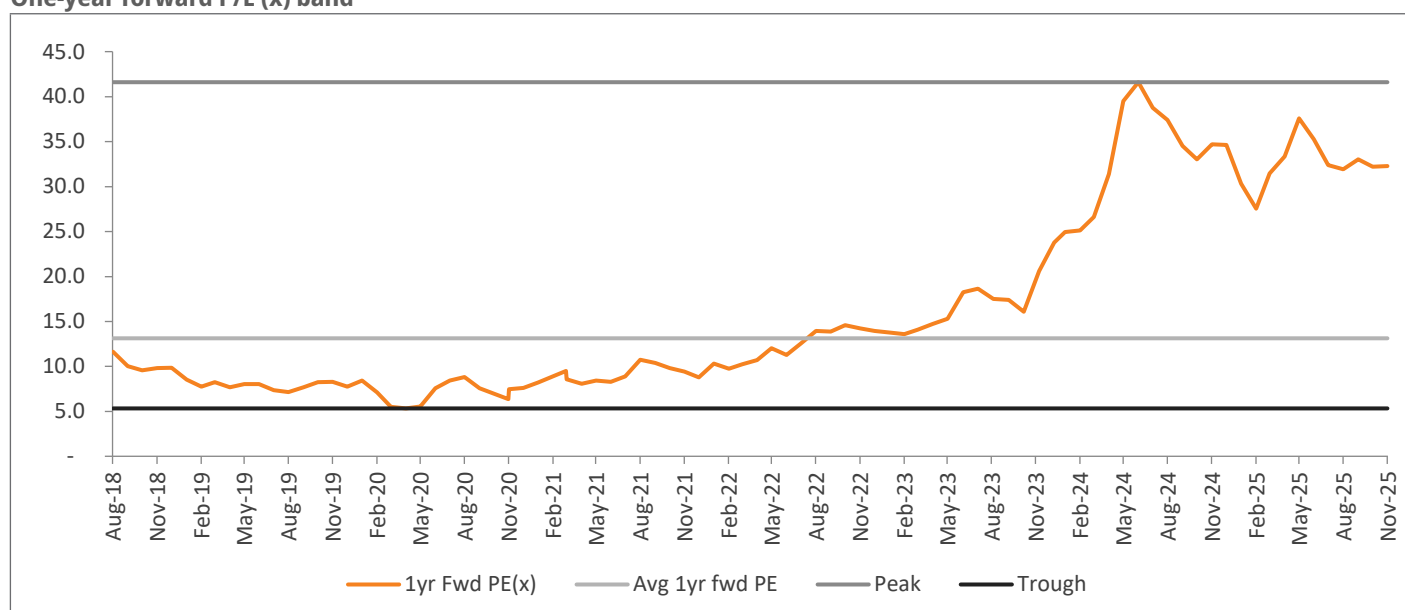
■ Company Outlook – On a firm footing

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 26% 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 27x its FY2028E EPS. With the strong order book with a strong inquiry pipeline, we maintain our positive view of the stock and expect an upside of 26% from CMP factoring a revenue/ PAT CAGR growth of 25%/ 18%, 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
Barenaya 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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