

26 March 2025

India | Equity Research | Company Update

Hindustan Aeronautics

Defence

Set to soar

GE Aerospace has delivered the first of 99 (nos.) F404-IN20 engines to HAL for the light combat aircraft Tejas Mk 1A ([Delivering for India Today and Into the Future | GE Aerospace News](#)). In our view, this development allays concerns on the execution front. We expect revenue growth of 25–28% through to FY27E, based on the order book (OB) estimated at more than INR 1.3trn. Besides, there are further orders of 97 (nos.) Tejas Mk 1A and 156 (nos.) LCH Prachand in the pipeline. As a result of reduced execution concerns and lower risk on our earnings estimates, we roll back our WACC to 11% (earlier 12%), resulting in a revised TP of INR 5,000 (earlier INR 4,065). We upgrade HAL to **BUY** (from Add) and recommend it as our top pick among DPSUs.

The wait ends

GE Aerospace has delivered the first of 99 (nos.) F404-IN20 engines to HAL for Tejas Mk 1A. We see this is a vital development that allays execution risk concerns. At Aero India, HAL expressed confidence in receiving 12 (nos.) F404-IN20 engines for the LCA Mk 1A this year. While it has the capacity to manufacture 24 (nos.) Tejas Mk 1A, we estimate only a gradual ramp-up from 10 (nos.) in FY26 to 24 (nos.) by FY30. We estimate revenue growth of 25%/28% YoY in FY26/FY27, resulting in an EPS CAGR of 39% through to FY27E (from FY25E level). We also see the commencement of execution of Tejas Mk-1A order as a positive for other defence companies in our coverage – BEL and Astra Microwave (involved in Uttam AESA radar and EW system from 43rd plane onwards); Dynamatic Technologies (front fuselage supplier).

Other sweeteners in store

We believe, HAL's OB is likely to get a leg-up with further order of 97 (nos.) Tejas Mk 1A and 156 (nos.) LCH Prachand. IAF Chief Air Chief Marshal A. P. Singh recently emphasised on the urgency to add 35–40 fighter jets annually to address existing shortages. Besides, HAL aims to complete the assembly of first Tejas Mk-II aircraft by Oct'25 and achieve its maiden flight by end-Mar'26 ([HAL Nears Completion of First Tejas MkII Aircraft as Assembly Progresses Swiftly – Indian Defence Research Wing](#)). Currently, the discussion between HAL and GE pertaining to ToT of F-414 engine is ongoing.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	3,03,811	3,22,365	4,01,497	5,15,579
EBITDA	97,411	82,536	1,10,629	1,41,957
EBITDA Margin (%)	32.1	25.6	27.6	27.5
Net Profit	76,210	62,609	92,268	1,20,638
EPS (INR)	114.0	93.6	138.0	180.4
EPS % Chg YoY	30.4	(17.7)	47.4	30.8
P/E (x)	36.4	44.2	30.0	22.9
EV/EBITDA (x)	25.5	30.3	20.8	15.3
RoCE (%)	25.3	17.1	20.4	23.0
RoE (%)	31.7	22.1	27.9	31.2

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Market Data

Market Cap (INR)	2,761bn
Market Cap (USD)	32,220mn
Bloomberg Code	HNAL IN
Reuters Code	HIAE BO
52-week Range (INR)	5,675 /3,046
Free Float (%)	28.0
ADTV-3M (mn) (USD)	87.1

Price Performance (%)	3m	6m	12m
Absolute	(2.4)	(5.5)	25.1
Relative to Sensex	(0.9)	4.4	18.4

ESG Score	2022	2023	Change
ESG score	65.6	66.1	0.5
Environment	45.4	44.7	(0.7)
Social	73.5	77.8	4.3
Governance	73.9	73.5	(0.4)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

13-02-2025: [Q3FY25 results review](#)

15-11-2024: [Q2FY25 results review](#)

Outlook: First engine delivered; a monumental step

We believe that the delivery of the first F-404 engine by GE represents a significant step towards assuaging the execution concerns for HAL. Besides, we believe that HAL is set for the long haul as manufacturing gathers steam with possible additional orders for LCA Tejas Mk-1A in the near term. Besides, the progress on development of Tejas Mk-II and AMCA is on. We also believe that the execution of Tejas Mk-1A would be beneficial for other companies involved in the supply chain such as BEL, Astra Microwave and Dynamatic Technologies. Taking cognizance of lower risk on execution, we roll back WACC to 11% (earlier 12%), resulting in a revised TP of INR 5,000 (earlier INR 4,065) on a DCF-based methodology. Upgrade to **BUY** (earlier *Add*).

Key risks

- Delay in execution of existing 83 nos. Tejas Mk-1A orders.
- Delay in receipt of further orders for which AoN has been executed.
- Margin decline owing to higher raw material prices.

Exhibit 1: DCF-based valuation

(In INR mn)	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Sales	3,03,811	3,22,365	4,01,497	5,15,579	5,99,412	6,89,223	7,70,211	8,09,340	8,44,538
EBITDA	97,411	82,536	1,10,629	1,41,957	1,67,153	1,99,746	2,20,875	2,36,209	2,45,912
Tax	26,039	21,392	31,526	41,220	49,807	60,083	67,355	74,071	80,378
PAT	76,210	62,609	92,268	1,20,638	1,45,771	1,75,846	1,97,128	2,16,786	2,35,243
NOPAT	71,371	61,143	79,103	1,00,737	1,17,346	1,39,663	1,53,520	1,62,138	1,65,534
Working Capital Change	(31,251)	(29,241)	1,49,787	53,508	54,904	16,161	(7,319)	26,293	67,308
Capex	(9,164)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
FCF	30,956	1,902	1,98,890	1,24,245	1,42,250	1,25,824	1,16,201	1,58,430	2,02,842
Terminal Value							-	-	49,04,131
Total FCF	30,956	1,902	1,98,890	1,24,245	1,42,250	1,25,824	1,16,201	1,58,430	51,06,974
WACC	11%								
Terminal Growth	6.5%								
NPV of FCFF (FY26E)	30,96,794								
Net Debt at FY25E	(2,46,630)								
Net Equity value	33,43,424								
Value per share	5,000								

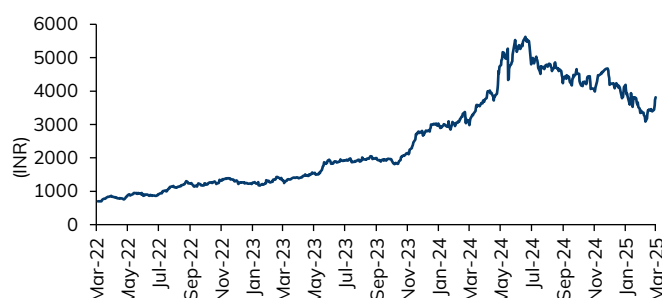
Source: I-Sec research

Exhibit 2: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	71.6	71.6	71.6
Institutional investors	20.1	20.3	19.9
MFs and others	5.8	5.1	4.6
FIs/Banks	0.1	0.6	0.1
Insurance	2.5	2.7	2.9
FIIIs	11.7	11.9	12.3
Others	8.3	8.1	8.5

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	3,03,811	3,22,365	4,01,497	5,15,579
Operating Expenses	1,01,392	1,18,942	1,38,299	1,72,546
EBITDA	97,411	82,536	1,10,629	1,41,957
EBITDA Margin (%)	32.1	25.6	27.6	27.5
Depreciation & Amortization	14,072	16,374	18,675	20,977
EBIT	83,339	66,162	91,954	1,20,980
Interest expenditure	321	321	321	321
Other Non-operating Income	18,966	18,060	32,061	41,099
Recurring PBT	1,01,984	83,901	1,23,694	1,61,758
Profit / (Loss) from Associates	265	100	100	100
Less: Taxes	26,039	21,392	31,526	41,220
PAT	75,945	62,509	92,168	1,20,538
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	76,210	62,609	92,268	1,20,638
Net Income (Adjusted)	76,210	62,609	92,268	1,20,638

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	6,30,231	6,32,524	8,77,374	10,78,240
of which cash & cash eqv.	2,64,316	2,51,688	4,46,813	5,72,769
Total Current Liabilities & Provisions	3,79,027	3,58,267	5,30,313	6,19,134
Net Current Assets	2,51,205	2,74,258	3,47,060	4,59,106
Investments	15,913	15,913	15,913	15,913
Net Fixed Assets	82,934	96,561	1,07,886	1,16,908
ROU Assets	-	-	-	-
Capital Work-in-Progress	9,369	9,369	9,369	9,369
Total Intangible Assets	-	-	-	-
Other assets	42,504	42,504	42,504	42,504
Deferred Tax Assets	-	-	-	-
Total Assets	4,01,925	4,38,605	5,22,732	6,43,800
Liabilities				
Borrowings	5,059	5,059	5,059	5,059
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	1,05,449	1,11,888	1,39,354	1,78,951
Equity Share Capital	3,344	3,344	3,344	3,344
Reserves & Surplus	2,88,038	3,18,277	3,74,939	4,56,411
Total Net Worth	2,91,382	3,21,621	3,78,283	4,59,755
Minority Interest	36	36	36	36
Total Liabilities	4,01,925	4,38,605	5,22,732	6,43,800

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	82,228	50,062	2,61,051	1,95,444
Working Capital Changes	(31,251)	(29,241)	1,49,787	53,508
Capital Commitments	(17,552)	(30,000)	(30,000)	(30,000)
Free Cashflow	64,677	20,062	2,31,051	1,65,444
Other investing cashflow	(46,549)	-	-	-
Cashflow from Investing Activities	(64,101)	(30,000)	(30,000)	(30,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(257)	(321)	(321)	(321)
Inc (Dec) in Borrowings	(3)	-	-	-
Dividend paid	(19,729)	(32,369)	(35,606)	(39,166)
Others	-	-	-	-
Cash flow from Financing Activities	(19,989)	(32,690)	(35,927)	(39,488)
Chg. in Cash & Bank balance	(1,861)	(12,628)	1,95,124	1,25,957
Closing cash & balance	2,01,305	2,51,688	4,46,813	5,72,769

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	113.6	93.5	137.8	180.2
Adjusted EPS (Diluted)	114.0	93.6	138.0	180.4
Cash EPS	135.0	118.1	165.9	211.8
Dividend per share (DPS)	44.0	48.4	53.2	58.6
Book Value per share (BV)	435.7	480.9	565.6	687.5
Dividend Payout (%)	38.7	51.8	38.6	32.5
Growth (%)				
Net Sales	12.8	6.1	24.5	28.4
EBITDA	45.8	(15.3)	34.0	28.3
EPS (INR)	30.4	(17.7)	47.4	30.8
Valuation Ratios (x)				
P/E	36.4	44.2	30.0	22.9
P/CEPS	30.6	35.0	24.9	19.5
P/BV	9.5	8.6	7.3	6.0
EV / EBITDA	25.5	30.3	20.8	15.3
P / Sales	9.1	8.6	6.9	5.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	65.4	62.5	62.0	61.0
EBITDA Margins (%)	32.1	25.6	27.6	27.5
Effective Tax Rate (%)	25.5	25.5	25.5	25.5
Net Profit Margins (%)	25.0	19.4	23.0	23.4
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.9)	(0.8)	(1.2)	(1.3)
Net Debt / EBITDA (x)	(2.8)	(3.2)	(4.1)	(4.1)
Profitability Ratios				
RoCE (%)	25.3	17.1	20.4	23.0
RoE (%)	31.7	22.1	27.9	31.2
RoIC (%)	230.4	149.9	(5,157.1)	(187.7)
Fixed Asset Turnover (x)	1.8	1.7	1.9	2.1
Inventory Turnover Days	177	176	194	212
Receivables Days	62	60	65	69
Payables Days	82	83	86	91

Source Company data, I-Sec research

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