

15 August 2024

India | Equity Research | Q1FY25 results review

## Hindustan Aeronautics

Defence

### Tepid execution; LCA Tejas Mk-1A deliveries awaited

Hindustan Aeronautics' (HNAL) performance missed street's estimates mainly on the back of weak execution. Key points: 1) EBITDA rose 13% YoY to INR 9.9bn (highest-ever for Q1). 2) EBITDA margin was at a healthy level of 22.8%. 3) An income tax refund of INR 4.4bn resulted in PAT growth of 77% YoY. 4) HNAL made two investments worth (cumulatively) INR 49.6mn with other defence companies. We believe that the delivery of LCA Tejas Mk-1A would be a critical and the single most important enabler for the stock's performance. As per our channel checks, the deliveries have been delayed owing to engine supply issues from GE. Retain **ADD** and TP of INR 5,170 (DCF based-methodology).

### Falls short of estimates

HNAL's Q1FY25 revenue/EBITDA missed consensus estimates by 7.7%/26%. Key points: 1) Provisions, as a % of revenue, were at 11% compared to 9% earlier. 2) EBITDA margin was at 22.8% compared to street's estimates of 28.3%, possibly due to lower proportion of RoH revenue.; 3) Employee cost was down 11% YoY owing to additional liability arising out of an increased ceiling for pension contribution, worth INR 1.8bn, in the prior quarter. 4) HNAL received an income tax refund in Q1FY25, resulting in INR 2.6bn being credited under tax expenses and INR 1.89bn being accounted as other income. Net income (adj.) at INR 9.86bn was 13% lower vs. street's estimates. Ahead, we believe that the delivery of the LCA Tejas Mk-1A will be a critical stock enabler.

### Order potential not a concern; execution needs more steam

In our view, HNAL has a plethora of opportunities ahead with platforms such as Tejas Mk-2, IMRH, AMCA. That said, the schedule of delivery of 83 nos. of Tejas Mk-1A shall be critical. Our channel checks indicate that the delay in delivery is due to adverse impact on the supply of engines by GE owing to global supply chain disruption. Besides, the issues Digital Flight Control Computer, which requires extensive testing, and AESA radar (ELM 2052) are aggravating the situation ([Link](#)). That said, there are media reports indicating that HAL and IAF are near agreement for 97 nos. additional Tejas Mk-1A as GE commits to boosting F-404 engine deliveries ([Link](#)).

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,69,275	3,03,811	3,41,820	3,95,895
EBITDA	66,792	97,411	90,901	1,08,248
EBITDA Margin (%)	24.8	32.1	26.6	27.3
Net Profit	58,277	76,210	69,750	90,552
EPS (INR)	87.1	114.0	104.3	135.4
EPS % Chg YoY	14.7	30.4	(8.3)	29.9
P/E (x)	53.5	41.1	44.8	34.5
EV/EBITDA (x)	43.5	29.2	31.5	24.8
RoCE (%)	22.0	25.3	19.1	19.6
RoE (%)	30.0	31.7	24.4	27.1

#### Amit Dixit

amit.dixit@icicisecurities.com  
+91 22 6807 7289

#### Mohit Lohia

mohit.lohia@icicisecurities.com

#### Prithish Urumkar

Prithish.urumkar@icicisecurities.com

#### Market Data

Market Cap (INR)	3,118bn
Market Cap (USD)	37,163mn
Bloomberg Code	HNAL IN
Reuters Code	HIAE BO
52-week Range (INR)	5,675 /1,768
Free Float (%)	28.0
ADTV-3M (mn) (USD)	248.1

Price Performance (%)	3m	6m	12m
Absolute	14.4	57.6	140.4
Relative to Sensex	6.2	47.5	119.4

#### Previous Reports

18-05-2024: [Q4FY24 results review](#)

12-02-2024: [Q3FY24 results review](#)

## Outlook: Execution is key; maintain ADD

In our view, HAL's firm order book and a robust order funnel (potential orders), including now near-finalisation 97 nos. of additional Tejas Mk-1A provide it a long runway for growth. However, manufacturing momentum is expected to pick up only from execution of 83 nos. LCA Mk-1A. That said, we expect RoH revenue to grow at 8–10% p.a., providing stability to earnings and better margins. We retain our **ADD** rating on HAL with an unchanged TP of INR 5,170 (DCF-based methodology).

## 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: HAL Q1FY25 performance review

(INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net Revenue	43,475	39,154	11.0	1,47,688	(70.6)	3,03,811	2,69,275	12.8
Growth	11.0%	8.1%		18.2%		12.8%	9.4%	
Cost of material	14,477	10,843	33.5	64,888	(77.7)	1,23,463	99,937	23.5
Purchase of stock	1,225	880		2,867		6,714	7,992	
Change in inventory	(1,190)	(1,481)		(19,273)		(19,586)	(6,907)	
Total cost of materials	14,512	10,242		48,482		1,10,591	1,01,021	
Cost of material as % of sales	33	26		33		36	38	
Gross Margin	28,963	28,912	0.2	99,206	(70.8)	1,93,220	1,68,254	14.8
Gross Margin (%)	66.6	73.8		67.2		63.6	62.5	
Employee Expenses	12,476	14,037	(11.1)	13,906	(10.3)	52,907	49,104	7.7
Other expenses	4,380	3,543	23.6	6,952	(37.0)	18,067	15,606	15.8
Impairment loss	1	29		49		150	5,974	
Provisions	4,747	3,556	33.5	23,044	(79.4)	33,030	37,248	(11.3)
Expenses capitalised	(2,547)	(1,021)		(3,759)		(8,345)	(6,470)	
<b>EBITDA</b>	9,907	8,768	13.0	59,013	(83.2)	97,411	66,792	45.8
EBITDA margin (%)	22.8	22.4		40.0		32.1	24.8	
Interest	1	0	600.0	314		321	580	(44.6)
Other Income	7,364	4,099	79.6	5,573		18,966	16,701	13.6
EBIT	17,269	12,867		64,272		1,16,055	82,913	
EBIT margin (%)	39.7	32.9		43.5		38.2	30.8	
EBIT margin ex other income (%)	22.8	22.4		39.7		32.0	24.6	
Depreciation	1,492	2,014	(25.9)	6,440	(76.8)	14,072	17,847	(21.2)
Exceptional item	-	-		-		-	-	
<b>PBT</b>	15,777	10,854	45.4	57,832	(72.7)	1,01,984	65,066	56.7
Tax	1,466	2,749		14,863		26,039	6,818	
<b>PAT</b>	14,311	8,104	76.6	42,969	(66.7)	75,944	58,249	30.4
Share of Profit/(Loss) of Joint Ventures	60	366		118		594	29	

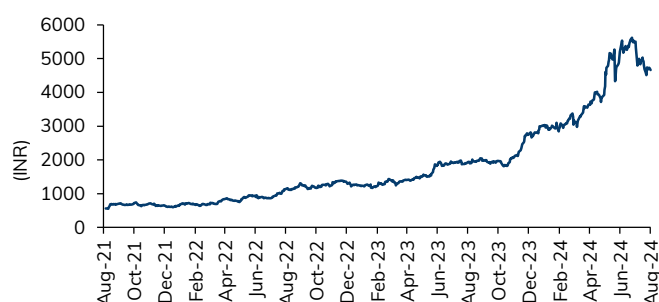
Source: I-Sec research, Company data

## Exhibit 2: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	71.6	71.6	71.6
Institutional investors	22.1	22.0	20.1
MFs and others	6.7	6.8	5.8
FIs/Banks	0.0	0.0	0.1
Insurance	1.9	2.4	2.5
FIIIs	13.5	12.9	11.7
Others	6.3	6.4	8.3

Source: Bloomberg

## Exhibit 3: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>2,69,275</b>	<b>3,03,811</b>	<b>3,41,820</b>	<b>3,95,895</b>
Operating Expenses	1,07,932	1,01,392	1,22,736	1,37,207
<b>EBITDA</b>	<b>66,792</b>	<b>97,411</b>	<b>90,901</b>	<b>1,08,248</b>
EBITDA Margin (%)	24.8	32.1	26.6	27.3
Depreciation & Amortization	17,847	14,072	16,374	18,675
EBIT	48,945	83,339	74,528	89,573
Interest expenditure	580	321	321	321
Other Non-operating Income	16,701	18,966	19,276	32,139
<b>Recurring PBT</b>	<b>65,066</b>	<b>1,01,984</b>	<b>93,482</b>	<b>1,21,391</b>
<b>Profit / (Loss) from Associates</b>	<b>29</b>	<b>265</b>	<b>100</b>	<b>100</b>
Less: Taxes	6,818	26,039	23,832	30,940
PAT	58,249	75,945	69,650	90,452
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>58,277</b>	<b>76,210</b>	<b>69,750</b>	<b>90,552</b>
<b>Net Income (Adjusted)</b>	<b>58,277</b>	<b>76,210</b>	<b>69,750</b>	<b>90,552</b>

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	5,18,835	6,30,231	6,61,133	8,75,075
of which cash & cash eqv.	2,03,166	2,64,316	2,68,633	4,47,904
Total Current Liabilities & Provisions	3,21,742	3,79,027	3,72,981	5,24,533
<b>Net Current Assets</b>	<b>1,97,092</b>	<b>2,51,205</b>	<b>2,88,152</b>	<b>3,50,541</b>
Investments	14,579	15,913	15,913	15,913
Net Fixed Assets	80,825	82,934	96,561	1,07,886
ROU Assets	-	-	-	-
Capital Work-in-Progress	6,369	9,369	9,369	9,369
Total Intangible Assets	-	-	-	-
Other assets	51,404	42,504	42,504	42,504
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>3,50,269</b>	<b>4,01,925</b>	<b>4,52,499</b>	<b>5,26,213</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>5,250</b>	<b>5,059</b>	<b>5,059</b>	<b>5,059</b>
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	1,09,260	1,05,449	1,18,641	1,37,410
Equity Share Capital	3,344	3,344	3,344	3,344
Reserves & Surplus	2,32,378	2,88,038	3,25,419	3,80,365
<b>Total Net Worth</b>	<b>2,35,722</b>	<b>2,91,382</b>	<b>3,28,763</b>	<b>3,83,709</b>
Minority Interest	37	36	36	36
<b>Total Liabilities</b>	<b>3,50,269</b>	<b>4,01,925</b>	<b>4,52,499</b>	<b>5,26,213</b>

Source Company data, I-Sec research

### Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	56,357	60,613	1,47,688	43,475
% growth (YoY)	9.5	7.0	-	-
EBITDA	15,276	14,353	59,013	9,907
Margin %	27.1%	23.7%	40.0%	22.8%
Other Income	4,694	4,600	5,573	7,364
Extraordinaries	-	-	-	-
Adjusted Net Profit	12,323	12,549	42,969	14,311

Source Company data, I-Sec research

### Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>88,297</b>	<b>82,228</b>	<b>67,007</b>	<b>2,45,198</b>
Working Capital Changes	4,515	(31,251)	(19,438)	1,35,650
Capital Commitments	(17,812)	(17,552)	(30,000)	(30,000)
<b>Free Cashflow</b>	<b>70,485</b>	<b>64,677</b>	<b>37,007</b>	<b>2,15,198</b>
<b>Other investing cashflow</b>	<b>(39,468)</b>	<b>(46,549)</b>	-	-
Cashflow from Investing Activities	(57,280)	(64,101)	(30,000)	(30,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(557)	(257)	(321)	(321)
Inc (Dec) in Borrowings	(37)	(3)	-	-
Dividend paid	(16,719)	(19,729)	(32,369)	(35,606)
Others	-	-	-	-
Cash flow from Financing Activities	(17,313)	(19,989)	(32,690)	(35,927)
<b>Chg. in Cash &amp; Bank balance</b>	<b>13,704</b>	<b>(1,861)</b>	<b>4,317</b>	<b>1,79,271</b>
Closing cash & balance	1,57,181	2,01,305	2,68,633	4,47,904

Source Company data, I-Sec research

### Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	87.1	113.6	104.1	135.2
Adjusted EPS (Diluted)	87.1	114.0	104.3	135.4
Cash EPS	113.8	135.0	128.8	163.3
Dividend per share (DPS)	40.0	44.0	48.4	53.2
Book Value per share (BV)	352.5	435.7	491.6	573.7
Dividend Payout (%)	45.9	38.7	46.5	39.4
<b>Growth (%)</b>				
Net Sales	9.4	12.8	12.5	15.8
EBITDA	23.5	45.8	(6.7)	19.1
EPS (INR)	14.7	30.4	(8.3)	29.9
<b>Valuation Ratios (x)</b>				
P/E	53.5	41.1	44.8	34.5
P/CEPS	41.0	34.5	36.2	28.5
P/BV	13.2	10.7	9.5	8.1
EV / EBITDA	43.5	29.2	31.5	24.8
P / Sales	11.6	10.3	9.1	7.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	64.9	65.4	62.5	62.0
EBITDA Margins (%)	24.8	32.1	26.6	27.3
Effective Tax Rate (%)	10.5	25.5	25.5	25.5
Net Profit Margins (%)	21.6	25.0	20.4	22.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.9)	(0.9)	(0.9)	(1.2)
Net Debt / EBITDA (x)	(3.2)	(2.8)	(3.1)	(4.2)
<b>Profitability Ratios</b>				
RoCE (%)	22.0	25.3	19.1	19.6
RoE (%)	30.0	31.7	24.4	27.1
RoIC (%)	92.9	230.4	187.5	(2,117.8)
Fixed Asset Turnover (x)	1.7	1.8	1.8	1.9
Inventory Turnover Days	179	177	183	189
Receivables Days	70	62	62	63
Payables Days	81	82	84	84

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

#### ANALYST CERTIFICATION

I/We, Amit Dixit, PGDM, B.Tech; Mohit Lohia, CA; Pritish Urumkar, MBATech (Finance); authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

---

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Bhavesh Soni](mailto:Mr. Bhavesh Soni) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

---