

15 November 2024

India | Equity Research | Q2FY25 results review

## Hindustan Aeronautics

Defence

### The elusive 'Engine'

Hindustan Aeronautics' (HAL) Q2FY25 performance missed consensus estimates. Key points: 1) Revenue growth of 6% YoY was chiefly driven by RoH segment; 2) delivery of ALF31P engines may contribute to manufacturing revenue in near term; 3) EBITDA margin was up 30bps YoY at 27.4%; 4) provision as a % of revenue declined due to lower proportion of manufacturing revenue; and 5) exceptional gains stood at INR 58.9mn. Going ahead, we believe execution is likely to be impacted in near term due to delay in supply of F-404 engines by GE Aerospace. Hence, we prune FY25/26E EBITDA by 16%/4%. Raise discount rate in DCF model by 100bps to 11% to account for execution uncertainty. Our revised TP works out to INR 4,660. Maintain **ADD**.

### Earnings growth slows down

HAL's Q2FY25 EBITDA and revenue missed consensus estimates by 19% and 13%, respectively. Key points: 1) EBITDA at INR 16.4bn rose 7% YoY while EBITDA margin was healthy 27.4%; 2) revenue rose a mere 6% YoY due to lower proportion of manufacturing income; 3) provisions as a % of revenue stood at 4% compared to 7% a year back, possibly due to higher share of RoH income; 4) it received an order worth INR 260bn for supply of 240nos. ALF31P engines, taking orderbook above INR 1trn; 5) exceptional gains stood at INR 58.9mn from the sale of land for Bengaluru metro rail project; and 6) inventory build-up stood at INR 42.3bn, possibly in WIP as the company proceeds with production plan. Going ahead, we believe the execution plan for 83nos. is likely to be closely tracked as it is critical for earnings growth.

### Awaiting commencement of F-404 engine deliveries

Our channel checks indicate GE Aerospace is still facing supply-chain disruption and is collaborating with HAL for delivery schedule. As per some media articles, HAL is expected to receive at least two GE-404 engines per month starting Nov'24 ([Link](#)). The steady flow of engines is essential for HAL to accelerate the production pace for Tejas Mk-1A. Currently, the company has a capacity to manufacture 24 jets per annum. We would keep a close tab on the commencement of engine deliveries.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,69,275	3,03,811	3,08,820	3,84,895
EBITDA	66,792	97,411	76,711	1,03,573
EBITDA Margin (%)	24.8	32.1	24.8	26.9
Net Profit	58,277	76,210	57,637	85,705
EPS (INR)	87.1	114.0	86.2	128.2
EPS % Chg YoY	14.7	30.4	(24.2)	48.8
P/E (x)	46.9	36.0	47.5	31.9
EV/EBITDA (x)	37.7	25.2	32.4	22.2
RoCE (%)	22.0	25.3	15.7	19.2
RoE (%)	30.0	31.7	20.5	26.4

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#### Market Data

Market Cap (INR)	2,733bn
Market Cap (USD)	32,357mn
Bloomberg Code	HNAL IN
Reuters Code	HIAE BO
52-week Range (INR)	5,675 /2,041
Free Float (%)	28.0
ADTV-3M (mn) (USD)	89.6

Price Performance (%)	3m	6m	12m
Absolute	(12.3)	0.3	98.4
Relative to Sensex	(10.4)	(5.8)	78.9

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 number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(9.7)	(2.8)
EBITDA	(15.6)	(4.3)
EPS	(17.4)	(5.4)

#### Previous Reports

15-08-2024: [Q1FY25 results review](#)

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

### Outlook: Earnings growth slows down

Taking cognisance of the delay in engines, impacting revenue from Tejas Mk-1A, we have lowered our FY25/26E EBITDA by 16%/4%, respectively. Furthermore, owing to the uncertainty surrounding earnings, we are raising the discount rate (WACC) by 100bps to 11% in our DCF model. As a result, revised TP works out to INR 4,660 (earlier INR 5,170) on DCF-based methodology. Maintain **ADD** rating on HAL stock.

### 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: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	3,08,820	3,41,820	(9.7)	3,84,895	3,95,895	(2.8)
EBITDA	76,711	90,901	(15.6)	1,03,573	1,08,248	(4.3)
PAT	57,637	69,750	(17.4)	85,705	90,552	(5.4)

Source: I-Sec research

### Exhibit 2: DCF Valuation

(INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Sales	2,46,202	2,69,275	3,03,811	3,08,820	3,84,895	4,69,817	5,79,482	6,45,303	7,46,103	8,10,554	8,15,879
EBITDA	54,088	66,792	97,411	76,711	1,03,573	1,22,966	1,59,081	1,81,959	2,11,352	2,36,695	2,34,449
Tax	1,447	6,818	26,039	19,693	29,284	35,272	46,812	54,043	63,470	72,926	75,607
PAT	50,801	58,277	76,210	57,637	85,705	1,03,230	1,37,004	1,58,169	1,85,760	2,13,434	2,21,279
NOPAT	52,641	59,974	71,371	57,018	74,290	87,694	1,12,270	1,27,915	1,47,881	1,63,769	1,58,842
Working Capital Change	12,654	4,515	(31,251)	(36,066)	1,43,767	34,460	73,073	2,649	6,819	40,057	49,382
Capex	(7,993)	(7,824)	(9,164)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
FCF	57,302	56,665	30,956	(9,048)	1,88,057	92,154	1,55,343	1,00,564	1,24,700	1,73,826	1,78,224
Terminal Value										-	44,62,711
Total FCF	57,302	56,665	30,956	(9,048)	1,88,057	92,154	1,55,343	1,00,564	1,24,700	1,73,826	46,40,934
WACC	11%										
Terminal Growth	6.5%										
NPV of FCFF (FY25E)	28,58,079										
Net Debt at FY24E	(2,59,258)										
Net Equity value	31,17,336										
<b>Value per share (INR)</b>	<b>4,660</b>										

Source: I-Sec research

### Exhibit 3: HAL Q2FY25 performance review

(INR mn)	Q2FY25	Q2FY24	% Chg YoY	Q1FY25	% Chg QoQ	FY24	FY23	% Chg YoY
Net Revenue	59,763	56,357	6.0	43,475	37.5	3,03,811	2,69,275	12.8
Growth	6.0%	9.5%		11.0%		12.8%	9.4%	
Cost of material	30,640	19,672	55.8	14,477	111.6	1,23,463	99,937	23.5
Purchase of stock	1,567	1,570		1,225		6,714	7,992	
Change in inventory	(7,748)	2,277		(1,190)		(19,586)	(6,907)	
Total cost of materials	24,459	23,519		14,512		1,10,591	1,01,021	
Cost of material as % of sales	41	42		33		36	38	
Gross Margin	35,304	32,838	7.5	28,963	21.9	1,93,220	1,68,254	14.8
Gross Margin (%)	59.1	58.3		66.6		63.6	62.5	
Employee Expenses	13,753	11,959	15.0	12,476	10.2	52,907	49,104	7.7
Other expenses	4,941	3,760	31.4	4,380	12.8	18,067	15,606	15.8
Impairment loss	55	70		1		150	5,974	
Provisions	2,503	4,010	(37.6)	4,747	(47.3)	33,030	37,248	(11.3)
Expenses capitalised	(2,347)	(2,238)		(2,547)		(8,345)	(6,470)	
<b>EBITDA</b>	<b>16,400</b>	<b>15,276</b>	<b>7.4</b>	<b>9,907</b>	<b>65.5</b>	<b>97,411</b>	<b>66,792</b>	<b>45.8</b>
EBITDA margin (%)	27.4	27.1		22.8		32.1	24.8	
Interest	0	3	(93.8)	1		321	580	(44.6)
Other Income	5,424	4,694	15.6	7,364		18,966	16,701	13.6
EBIT	21,824	19,967		17,269		1,16,055	82,913	
EBIT margin (%)	36.5	35.4		39.7		38.2	30.8	
EBIT margin ex other income (%)	27.4	27.1		22.8		32.0	24.6	
Depreciation	1,776	3,497	(49.2)	1,492	19.0	14,072	17,847	(21.2)
Exceptional item	-	-		-		-	-	
<b>PBT</b>	<b>20,048</b>	<b>16,470</b>	<b>21.7</b>	<b>15,777</b>	<b>27.1</b>	<b>1,01,984</b>	<b>65,066</b>	<b>56.7</b>
Tax	5,122	4,148		1,466		26,039	6,818	
<b>PAT</b>	<b>14,926</b>	<b>12,323</b>	<b>21.1</b>	<b>14,311</b>	<b>4.3</b>	<b>75,944</b>	<b>58,249</b>	<b>30.4</b>
Share of Profit/(Loss) of Joint Ventures	120	44		60		594	29	

Source: I-Sec research, Company data

### Exhibit 4: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	71.6	71.6	71.6
Institutional investors	22.0	20.1	20.3
MFs and others	6.8	5.8	5.1
FIs/Banks	0.0	0.1	0.6
Insurance	2.4	2.5	2.7
FIIIs	12.9	11.7	11.9
Others	6.4	8.3	8.1

Source: Bloomberg

### Exhibit 5: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 6: 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>3,08,820</b>	<b>3,84,895</b>
Operating Expenses	1,07,932	1,01,392	1,16,301	1,35,062
<b>EBITDA</b>	<b>66,792</b>	<b>97,411</b>	<b>76,711</b>	<b>1,03,573</b>
EBITDA Margin (%)	24.8	32.1	24.8	26.9
Depreciation & Amortization	17,847	14,072	16,374	18,675
EBIT	48,945	83,339	60,338	84,898
Interest expenditure	580	321	321	321
Other Non-operating Income	16,701	18,966	17,213	30,312
<b>Recurring PBT</b>	<b>65,066</b>	<b>1,01,984</b>	<b>77,230</b>	<b>1,14,889</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	19,693	29,284
PAT	58,249	75,945	57,537	85,605
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>58,277</b>	<b>76,210</b>	<b>57,637</b>	<b>85,705</b>
<b>Net Income (Adjusted)</b>	<b>58,277</b>	<b>76,210</b>	<b>57,637</b>	<b>85,705</b>

Source Company data, I-Sec research

### Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Total Current Assets</b>	<b>5,18,835</b>	<b>6,30,231</b>	<b>6,12,607</b>	<b>8,42,947</b>
of which cash & cash eqv.	2,03,166	2,64,316	2,39,892	4,22,433
<b>Total Current Liabilities &amp; Provisions</b>	<b>3,21,742</b>	<b>3,79,027</b>	<b>3,48,023</b>	<b>5,13,183</b>
<b>Net Current Assets</b>	<b>1,97,092</b>	<b>2,51,205</b>	<b>2,64,584</b>	<b>3,29,763</b>
Investments	14,579	15,913	15,913	15,913
<b>Net Fixed Assets</b>	<b>80,825</b>	<b>82,934</b>	<b>96,561</b>	<b>1,07,886</b>
ROU Assets	-	-	-	-
Capital Work-in-Progress	6,369	9,369	9,369	9,369
<b>Total Intangible Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
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>4,28,932</b>	<b>5,05,435</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>5,250</b>	<b>5,059</b>	<b>5,059</b>	<b>5,059</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
provisions	-	-	-	-
other Liabilities	1,09,260	1,05,449	1,07,187	1,33,592
Equity Share Capital	3,344	3,344	3,344	3,344
Reserves & Surplus	2,32,378	2,88,038	3,13,306	3,63,405
<b>Total Net Worth</b>	<b>2,35,722</b>	<b>2,91,382</b>	<b>3,16,649</b>	<b>3,66,749</b>
Minority Interest	37	36	36	36
<b>Total Liabilities</b>	<b>3,50,269</b>	<b>4,01,925</b>	<b>4,28,932</b>	<b>5,05,435</b>

Source Company data, I-Sec research

### Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	60,613	1,47,688	43,475	59,763
% growth (YoY)	7.0	18.2	11.0	6.0
EBITDA	14,353	59,013	9,907	16,400
Margin %	23.7	0.4	0.2	0.3
Other Income	4,600	5,573	7,364	5,424
Extraordinary	-	-	-	59
<b>Adjusted Net Profit</b>	<b>12,549</b>	<b>42,969</b>	<b>14,311</b>	<b>14,985</b>

Source Company data, I-Sec research

### Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>88,297</b>	<b>82,228</b>	<b>38,266</b>	<b>2,48,469</b>
Working Capital Changes	4,515	(31,251)	(36,066)	1,43,767
Capital Commitments	(17,812)	(17,552)	(30,000)	(30,000)
<b>Free Cashflow</b>	<b>70,485</b>	<b>64,677</b>	<b>8,266</b>	<b>2,18,469</b>
<b>Other investing cashflow</b>	<b>(39,468)</b>	<b>(46,549)</b>	<b>-</b>	<b>-</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>(24,424)</b>	<b>1,82,542</b>
Closing cash & balance	1,57,181	2,01,305	2,39,892	4,22,433

Source Company data, I-Sec research

### Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	87.1	113.6	86.0	128.0
Adjusted EPS (Diluted)	87.1	114.0	86.2	128.2
Cash EPS	113.8	135.0	110.7	156.1
Dividend per share (DPS)	40.0	44.0	48.4	53.2
Book Value per share (BV)	352.5	435.7	473.5	548.4
Dividend Payout (%)	45.9	38.7	56.3	41.6
<b>Growth (%)</b>				
Net Sales	9.4	12.8	1.6	24.6
EBITDA	23.5	45.8	(21.2)	35.0
EPS (INR)	14.7	30.4	(24.2)	48.8
<b>Valuation Ratios (x)</b>				
P/E	46.9	36.0	47.5	31.9
P/CEPS	35.9	30.3	36.9	26.2
P/BV	11.6	9.4	8.6	7.5
EV / EBITDA	37.7	25.2	32.4	22.2
P / Sales	10.2	9.0	8.9	7.1
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	24.8	26.9
Effective Tax Rate (%)	10.5	25.5	25.5	25.5
Net Profit Margins (%)	21.6	25.0	18.6	22.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.9)	(0.9)	(0.8)	(1.2)
Net Debt / EBITDA (x)	(3.2)	(2.8)	(3.3)	(4.2)
<b>Profitability Ratios</b>				
RoCE (%)	22.0	25.3	15.7	19.2
RoE (%)	30.0	31.7	20.5	26.4
RoIC (%)	92.9	230.4	127.9	1,210.0
Fixed Asset Turnover (x)	1.7	1.8	1.6	1.8
Inventory Turnover Days	179	177	172	191
Receivables Days	70	62	58	64
Payables Days	81	82	82	86

Source Company data, I-Sec research

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