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India | Equity Research | Re-Initiating Coverage

Hindustan Aeronautics

Defence

In-line performance; maintains guidance of 8-10% growth, stable EBITDA margin ahead

Hindustan Aeronautics Limited (HAL's) Q1FY26 performance was broadly in line with the management guidance. Key points: 1) EBITDA surged 29% YoY mainly on higher revenue and lower provisioning. 2) Revision in company's contribution to pension scheme from 7% to 10% of Basic + DA, resulted in an additional liability of INR 111mn. 3) Secured ToT of the Small Satellite Launch Vehicle (SSLV) from ISRO in a deal worth INR 5.1bn. 4) Received two engines for Tejas programme (FY26-YTD) while it plans to deliver at least five Tejas aircraft based on spare engines and new engines. Going ahead, management has guided for 8-10% revenue growth (at higher end), including RoH revenue of INR 200bn and stable EBITDA margin. We reinitiate coverage with **BUY** and TP of INR 5,800 (based on 40x FY27E EPS).

Q1FY26 result within guidance range

HAL's Q1FY26 EBITDA of INR 12.82bn grew 29% YoY mainly on account of revenue increase of 11% YoY and ~380bps expansion in EBITDA margin due to lower provisioning. Key points: 1) EBITDA margin improved to 26.6% (vs. 22.8% in Q1FY25) despite the INR 111.3mn additional contribution to pension scheme. 2) Provision as a % of revenue declined to 6.1% vs. 10.9% in Q1FY25. 3) HAL has secured ToT of the SSLV from ISRO in a deal worth INR 5.11bn, technology absorption could take at least two years. 4) It has received two engines from GE and the company plans to deliver at least five aircraft in FY26. In a recent interview, management guided for i) 8-10% revenue growth (at higher end), ii) RoH revenue of ~INR 200bn, iii) stable EBITDA margin, iv) order inflow of over INR 1trn in FY26 and v) capex of INR 140-150bn over the next 4-5 years.

Strong order pipeline

In the past two months, DAC has accorded approvals for projects worth INR 1.7trn; we believe HAL may be one of the key beneficiaries of these projects including the MALE UAVs (under development with DRDO and project value of INR 300bn). Further, the key order expected in FY26 includes: i) 97nos. of LCA MK-1a (>INR 600bn), ii) Su-30 upgrade (>INR 600bn), iii) Do-228 order (~INR 20bn) and iv) RoH orders worth INR 190-200bn. Further, civil MRO facility is again a new driver for the company, as the facility is likely to get certified by FY26 end.

Financial Summary

Y/E March (INR mn)	FY24A	FY25A	FY26E	FY27E
Net Revenue	3,03,811	3,09,810	3,41,261	4,04,647
EBITDA	97,411	96,081	97,510	1,17,416
EBITDA Margin (%)	32.1	31.0	28.6	29.0
Net Profit	76,210	83,641	81,435	97,022
EPS (INR)	114.0	125.1	121.8	145.1
EPS % Chg YoY	30.4	9.5	(2.6)	19.2
P/E (x)	38.8	35.5	36.4	30.5
EV/EBITDA (x)	20.2	25.2	27.3	22.2
RoCE (%)	27.2	21.6	18.5	21.6
RoE (%)	28.9	26.1	21.8	22.9

Vikash Singh

singh.vikash@icicisecurities.com
22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Prithish Urumkar

Pritish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	2,949bn
Market Cap (USD)	33,621mn
Bloomberg Code	HNAL IN
Reuters Code	HIAE BO
52-week Range (INR)	5,166 /3,046
Free Float (%)	28.0
ADTV-3M (mn) (USD)	106.3

Price Performance (%)	3m	6m	12m
Absolute	(0.7)	22.7	(6.7)
Relative to Sensex	2.0	17.3	(7.4)

ESG Score	2023	2024	Change
ESG score	66.1	62.1	(4.0)
Environment	44.7	43.9	(0.8)
Social	77.8	78.5	0.7
Governance	73.5	67.4	(6.1)

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

Source: SES ESG, I-sec research

Previous Reports

17-05-2025: [Q4FY25 results review](#)

02-04-2025: [Company Update](#)

Outlook: Risk reward turned favourable; orderbook to remain elevated

We believe HAL could generate healthy returns in the medium term as the stock is currently trading at reasonable valuation post the recent corrections. Key triggers to watch out include: i) Start of delivery of Tejas Mk-1a to IAF, ii) additional Tejas M1A order, iii) Su-30 upgrade order and iv) additional engines from GE (as GE promised to deliver 12 engines in FY26) etc. This apart, MALE UAVs (project value ~INR 300bn), could be a big opportunity for the company as this project is under development with DRDO. Management has guided for 8-10% revenue growth in FY26. We have factored in ~11%/23% revenue growth in FY26/27E while keeping EBITDA margin in the range of 29-30%. We reinitiate coverage with **BUY** and target price of INR 5,800, based on 40x FY27E EPS (marginal premium to average multiple to factor in strong order pipeline).

Key risks

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

Exhibit 1: HAL Q1FY26 performance review

(INR mn)	Q1FY26	Q1FY25	% Chg YoY	Q4FY25	% Chg QoQ
Revenue	48,190	43,475	10.8	1,36,999	(64.8)
Growth	10.8	11.0		(7.2)	
Gross Margin	32,784	28,963	13.2	87,299	(62.4)
Margin (%)	68.0	66.6		63.7	
EBITDA	12,824	9,907	29.4	52,949	(75.8)
EBITDA (%)	26.6	22.8		38.6	
Interest	3	1	114.3	84	
Other Income	7,471	7,364	1.5	6,515	
Depreciation	1,852	1,492	24.1	7,365	(74.9)
Exceptional	-	-		-	
PBT	18,440	15,777	16.9	52,015	(64.5)
Tax	4,705	1,466		12,420	
PAT	13,838	14,371	(3.7)	39,766	(65.2)

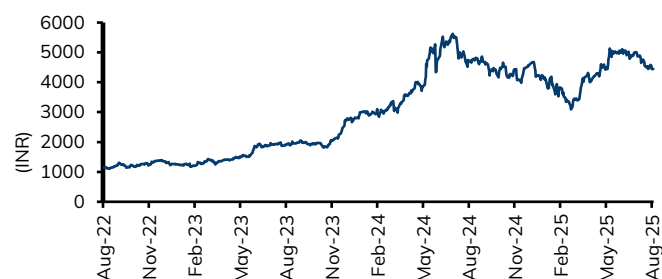
Source: Company data, I-Sec research

Exhibit 2: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	71.6	71.6	71.6
Institutional investors	19.9	19.8	20.7
MFs and others	4.6	4.3	5.2
FIs/Banks	0.1	0.1	0.1
Insurance	2.9	3.3	3.5
FIIIs	12.3	12.1	11.9
Others	8.5	8.6	7.7

Source: Bloomberg, I-Sec research

Exhibit 3: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Net Sales	3,03,811	3,09,810	3,41,261	4,04,647
Operating Expenses	1,01,392	1,00,676	1,08,953	1,29,419
EBITDA	97,411	96,081	97,510	1,17,416
EBITDA Margin (%)	32.1	31.0	28.6	29.0
Depreciation & Amortization	14,072	13,404	15,222	17,202
EBIT	83,339	82,677	82,288	1,00,213
Interest expenditure	-	-	-	-
Other Non-operating Income	18,966	25,617	23,262	25,588
Recurring PBT	1,01,984	1,08,207	1,05,400	1,25,652
Profit / (Loss) from Associates	265	407	407	407
Less: Taxes	26,039	25,032	24,372	29,037
PAT	75,945	83,175	81,028	96,615
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	76,210	83,641	81,435	97,022
Net Income (Adjusted)	76,210	83,641	81,435	97,022

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Total Current Assets	6,30,231	9,01,002	8,35,736	9,47,065
of which cash & cash eqv.	2,64,316	3,81,823	2,90,772	3,51,829
Total Current Liabilities & Provisions	3,79,027	4,59,633	4,71,289	5,11,511
Net Current Assets	2,51,205	4,41,369	3,64,447	4,35,554
Investments	15,913	17,542	17,542	17,542
Net Fixed Assets	82,934	86,775	1,01,552	1,14,350
ROU Assets	-	-	-	-
Capital Work-in-Progress	9,369	10,911	10,911	10,911
Total Intangible Assets	-	-	-	-
Other assets	42,504	46,439	46,439	46,439
Deferred Tax Assets	-	-	-	-
Total Assets	4,01,925	6,03,036	5,40,891	6,24,796
Liabilities				
Borrowings	5,059	4,967	4,967	4,967
Deferred Tax Liability	-	-	-	-
provisions	1,05,449	2,48,217	1,40,244	1,66,293
other Liabilities	-	-	-	-
Equity Share Capital	3,344	3,344	3,344	3,344
Reserves & Surplus	2,88,038	3,46,472	3,92,301	4,50,157
Total Net Worth	2,91,382	3,49,816	3,95,645	4,53,500
Minority Interest	36	36	36	36
Total Liabilities	4,01,925	6,03,036	5,40,891	6,24,796

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Operating Cashflow	93,564	1,66,835	(25,702)	1,29,965
Working Capital Changes	3,226	70,111	(1,22,102)	15,999
Capital Commitments	(19,181)	(18,786)	(30,000)	(30,000)
Free Cashflow	74,383	1,48,049	(55,702)	99,965
Other investing cashflow	7,565	(5,564)	-	-
Cashflow from Investing Activities	(11,616)	(24,350)	(30,000)	(30,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(321)	(87)	(149)	(149)
Inc (Dec) in Borrowings	(192)	(92)	-	-
Dividend paid	19,729	25,414	35,606	39,166
Others	(40,014)	(50,214)	(70,805)	(77,926)
Cash flow from Financing Activities	(20,798)	(24,979)	(35,348)	(38,909)
Chg. in Cash & Bank balance	61,150	1,17,506	(91,050)	61,057
Closing cash & balance	2,64,316	3,81,823	2,90,772	3,51,829

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	113.6	124.4	121.2	144.5
Adjusted EPS (Diluted)	114.0	125.1	121.8	145.1
Cash EPS	135.0	145.1	144.5	170.8
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	435.7	523.1	591.6	678.1
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	12.8	2.0	10.2	18.6
EBITDA	45.8	(1.4)	1.5	20.4
EPS (INR)	30.4	9.5	(2.6)	19.2
Valuation Ratios (x)				
P/E	38.8	35.5	36.4	30.5
P/CEPS	32.7	30.4	30.5	25.8
P/BV	10.1	8.4	7.5	6.5
EV / EBITDA	20.2	25.2	27.3	22.2
P / Sales	9.7	9.5	8.6	7.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	65.4	63.5	60.5	61.0
EBITDA Margins (%)	32.1	31.0	28.6	29.0
Effective Tax Rate (%)	25.5	23.1	23.1	23.1
Net Profit Margins (%)	25.0	26.8	23.7	23.9
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.9)	(1.1)	(0.8)	(0.8)
Net Debt / EBITDA (x)	(2.8)	(4.1)	(3.1)	(3.1)
Profitability Ratios				
RoCE (%)	27.2	21.6	18.5	21.6
RoE (%)	28.9	26.1	21.8	22.9
RoIC (%)	59.9	51.2	37.2	39.6
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	177	269	273	289
Receivables Days	62	58	59	63
Payables Days	46	63	64	68

Source Company data, I-Sec research

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

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