



Hindustan Aeronautics Limited

Q1FY24 Result Highlights

- **Numbers in line to attain 9% growth guidance for FY24** – Hindustan Aeronautics Ltd (HAL) reported Revenue/EBITDA/PAT of ₹3915.3Cr/₹879.6Cr/PAT ₹814.2Cr, +8.1%/+6.6%/34.2% YoY respectively. HAL has guided for moderate revenue growth for FY24 given manufacturing revenue is expected to witness good momentum from FY25 onwards as delivery for LCA Tejas MK-I gains traction. Till then Repair Overhaul (RoH) will dominate the revenue mix leading to muted revenue growth of 9% for FY24. Despite the strong revenue performance, profitability stood higher due to higher gross margin at 73.8% v/s 71.9% YoY and 61.9% QoQ, lower provision, and higher other income which grew ~+114% YoY to ₹410.8Cr.
- **Robust earnings growth of 34% YoY complemented by enhanced GM and other income** – Gross margin improved to 73.8% (+190 bps YoY) presumably due to higher than estimated contribution from the high-margin service segment. Operating margin contracted 31 bps YoY and 349 bps QoQ to 22.5% despite lower provisioning of ₹356.3Cr (9.1% of sales; -367 bps YoY) due to a high employee expense at ₹1399.5Cr (35.7% of sales; +770 bps YoY) on account of an ₹193Cr one-time pension scheme contribution outflow. With the possibility of achieving a 60% revenue contribution from the RoH segment in FY24, the company is likely to sustain its EBITDA margin of 26-27%.
- **Order book stands robust; pipeline looks equally promising** – HAL's order book currently stands at ₹81,784Cr (FY23) providing revenue visibility of 3x its TTM revenue. The order book has inflated after receiving order worth ₹48,000Cr for 83 LCA Tejas aircraft in FY22, delivery of which is expected to begin in FY24. Incrementally, the order pipeline looks extremely healthy with orders worth ₹48,000Cr for ALH (25), LUH (12), Su-30 (12), AL-31 FP Sukhoi engines (240), and RD-33 engines (80) being in advanced stages of finalization and are expected to materialize in the near term. Subsequently, orders worth ₹18000Cr are expected to materialize on the RoH front. Even the long-term order pipeline continues to remain robust with projects like a) Tejas MK-II, b) AMCA, c) Twin Engine Deck Based Fighter (TEDBF), d) Indian Multi Role Helicopter (IMRH), e) Light Combat Helicopter (LCH), and f) Advanced Light Helicopter (ALH-DHRUV MK-III) expected to provide HAL with a business opportunity of ₹4,50,000Cr over the next decade.

VIEW

HAL had a strong Q1FY24 performance and is likely to book 60% of its revenue from the high-margin repair overhaul (RoH) segment in FY24, which should be able to sustain its EBITDA margin at ~24%. HAL's business prospects looks good, given India is in the midst of modernising its armed forces due to obsolescence and the geopolitical situation, and this should lead to strong ordering for fighter aircrafts and helicopters, along with developing their respective engines and accessories - all areas in which HAL enjoys a strong position given its capabilities and those which it manufactures under license from foreign OEMs. Success in procuring orders from foreign friendly countries can also significantly boost its growth outlook. Hence we recommend it as a **BUY** with **Target Range** of **₹3,900-4,000**. Once the stock reaches our target price we recommend investor intending to exit can **Book Profits** while long term investors can continue to stay invested.

Important Data

Nifty	19,465
Sensex	65,539
CMP	₹3,900.15
Market Cap (₹ tn)	1.3
52W High/Low	₹3,999/2,202
Shares o/s (crs)	33.4
Daily Vol. (3M NSE Avg.)	2,280,822
BSE Code	541154
NSE Code	HAL
Bloomberg Code	HNAL:IN

Shareholding Pattern (%) – Jun'23

Promoter	71.7
FII	10.6
DII	11.9
Public & Others	5.8

Financials

	FY20	FY21	FY22
Operating Revenue	21,520	22,755	24,620
EBITDA	4,927	5,349	5,409
Margin (%)	22.9	23.5	22.0
Net Profit	2,770	3,239	5,080
EPS	83	97	152
DPS	33	30	50
RoE (%)	21	21	26
RoCE (%)	22	29	22
P/E (x)	47.0	40.2	25.7
EV / EBITDA (x)	27.2	23.1	21.6
P/BV (x)	9.8	8.6	6.8

	FY23	FY24E	FY25E
Operating Revenue	26,928	28,185	31,587
EBITDA	6,679	7,425	8,619
Margin (%)	24.8	26.3	27.3
Net Profit	5,825	5,381	6,277
EPS	174	161	188
DPS	40	52	57
RoE (%)	25	20	21
RoCE (%)	20	23	25
P/E (x)	22.4	24.2	20.8
EV / EBITDA (x)	16.6	14.9	12.9
P/BV (x)	5.5	4.9	4.4

Source: Company, Way2Wealth

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Financial Performance

(₹ Cr)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	3,915.3	3,622.5	8.1	12,494.6	(68.7)	26,927.9	24,620.2	9.4
Cost of Matl	1,086.1	1,248.2	(13.0)	4,971.3	(78.2)	10,010.3	8,755.3	14.3
Stock Purchases	88.0	68.1	29.2	466.3	(81.1)	799.2	656.7	21.7
Inventories Changes	(148.2)	(297.7)	(50.2)	(674.8)	(78.0)	(691.5)	592.3	(216.7)
Raw Matl Cost	1,025.9	1,018.6	0.7	4,762.9	(78.5)	10,118.0	10,004.2	1.1
Employee Exps	1,399.5	1,014.1	38.0	1,611.4	(13.2)	4,895.9	4,589.8	6.7
Impairment Losses	2.9	3.3	(12.9)	575.2	(99.5)	597.4	176.4	238.6
Other exps	353.4	381.7	(7.4)	416.1	(15.1)	1,558.0	1,208.7	28.9
Expenses Capitalised	(102.1)	(82.9)	23.2	(227.1)	(55.0)	(647.0)	(511.0)	26.6
Provisions	356.3	462.6	(23.0)	2,113.8	(83.1)	3,742.6	3,739.2	0.1
EBITDA	879.6	825.0	6.6	3,242.4	(72.9)	6,663.0	5,412.8	23.1
EBITDA Margin (%)	22.5	22.8	(31)	26.0	(349)	24.7	22.0	276
Other income	410.8	192.1	113.9	722.0	(43.1)	1,671.8	986.3	69.5
Depreciation	201.2	208.1	(3.3)	1,055.4	(80.9)	1,783.9	1,109.9	60.7
Finance Cost	0.0	0.2	(95.5)	55.3	(100.0)	57.9	58.1	(0.4)
PBT	1,089.1	808.8	34.7	2,853.8	(61.8)	6,492.9	5,231.2	24.1
Tax	274.9	202.1	36.0	12.5	2,104.8	681.8	144.7	371.3
PAT	814.2	606.7	34.2	2,841.3	(71.3)	5,811.2	5,086.5	14.2
EPS (₹)	24.3	18.1	34.2	85.0	(71.3)	173.8	152.1	14.2

As % to Sales	Q1FY24	Q1FY23	YoY (BPS)	Q4FY23	QoQ (BPS)	FY23	FY22	YoY (BPS)
Raw Matl Cost	26.2	28.1	(192)	38.1	(1,192)	37.6	40.6	(306)
Gross Margin	73.8	71.9	192	61.9	1,192	62.4	59.4	306
Employee Exps	35.7	28.0	775	12.9	2,285	18.2	18.6	(46)
Impairment Losses	0.1	0.1	(2)	4.6	(453)	2.2	0.7	150
Other exps	9.0	10.5	(151)	3.3	569	5.8	4.9	88
Expenses Capitalised	(2.6)	(2.3)	(32)	(1.8)	(79)	(2.4)	(2.1)	(33)
Provisions	9.1	12.8	(367)	16.9	(782)	13.9	15.2	(129)

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹ Cr)

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	21,520	22,755	24,620	26,927	28,185	31,587
Raw Mat Cost	9,463	11,044	10,001	10,102	10,000	11,680
% of Revenue	44.0	48.5	40.6	37.2	35.5	37.0
Op-ex	16,594	17,405	19,211	20,248	20,760	22,948
EBITDA	4,927	5,349	5,409	6,679	7,425	8,619
% Margin	22.9	23.5	22.0	24.8	26.3	27.3
EBIT	3,928	4,171	4,298	4,894	6,125	7,269
(+) Other Income	294	358	985	1,670	1,050	1,100
PBT	3,874	4,270	5,225	6,507	7,175	8,369
PAT	2,770	3,239	5,080	5,825	5,381	6,277
% Margin	12.9	14.2	20.6	21.6	19.1	19.9
EPS (₹)	83	97	152	174	161	188
DPS (₹)	33	30	50	40	52	57
RoE	21%	21%	26%	25%	20%	21%
RoCE	22%	29%	22%	21%	23%	25%
Net Worth	13,249	15,188	19,313	23,572	26,263	29,401
Receivable Days	191	90	69	64	62	61
Inventory Days	335	270	266	443	257	248
Cash Balances	3,166	7,177	14,348	20,317	20,687	19,886
FCF	147	13,945	8,532	7,049	2,682	2,793
P/E (x)	47	39	25	18	24.2	20.8
P/BV (x)	9.8	8.5	6.7	4.5	14.9	12.9
EV/EBITDA (x)	27	23	22	16.4	4.9	4.4
Net D/E (x)	0.5	(0.4)	(0.7)	(0.8)	(0.8)	(0.7)

Source: Company, Way2Wealth

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Disclosure of Interest Statement : HINDUSTAN AERONAUTICS LTD as on 17 August 2023

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Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
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Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
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