

January 5, 2021

Time Horizon – 12 Months

CMP: ₹925

Target: ₹1,152

ANAND RATHI

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Key Data	
Bloomberg Code	HNAL IN
NSE Code	HAL
BSE Code	541154
Sector	Industrials
Industry	Aerospace Products
Face Value (₹)	10.0
BV per share (₹)	396
Dividend Yield (%)	3.9%
52 Week L/H(₹)	448 / 1,424
Market Cap. (₹ Mn.)	286,500

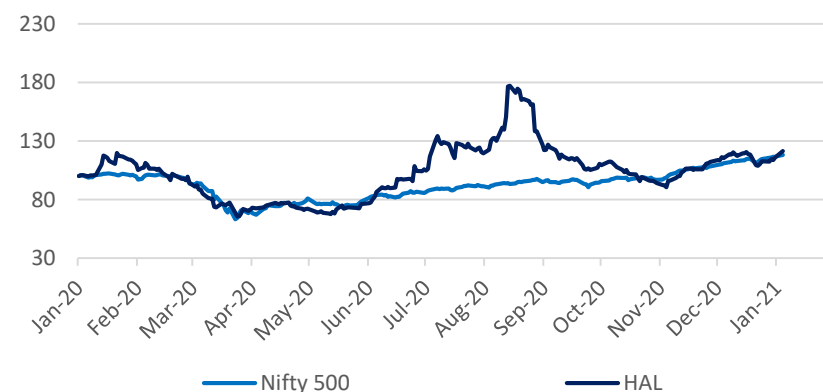
(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	200,082	214,382	224,589	272,503
EBITDA	45,513	49,073	43,709	53,034
EBITDA Margin	22.7%	22.9%	19.5%	19.5%
PAT	23286	28732	23314	29649
PAT Margin	11.6%	13.4%	10.4%	10.9%
EV/Sales	1.5	1.4	1.3	1.1
EV/EBITDA	6.0	5.7	6.4	5.2
P/E (x)	12.7	10.3	12.7	10.0
Price Performance	CY18	CY19	CY20	YTD
Absolute	-30%	-9%	18%	5%
Relative	-27%	-18%	1%	4%

Shareholding Pattern (as on Sep'20)

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	75.2%	89.9%	89.9%	89.9%
Institutions	19.8%	8.7%	8.7%	8.8%
Others	5.1%	1.3%	1.3%	1.25%
Total	100%	100%	100%	100%

Source: Company, Anand Rathi Research, Bloomberg

Relative stock performance (Jan'20=100)



Analyst: Shikher Jain
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Anand Rathi Research

Potential to scale new heights

- ❑ Hindustan Aeronautics is engaged in the business of Manufacture of Aircraft and Helicopters and Repair, Maintenance of Aircraft and Helicopters.
- ❑ HAL is one of the premier defence PSU in India along with Defence Research & Development Organization (DRDO) and has over the years showcased research, design and development capabilities with the successful development of military aircraft and helicopters such as the Ajeet, Marut, HPT-32, Kiran and Advanced Light Helicopter.
- ❑ Other than the indigenous aircraft and helicopters HAL has also manufactured aircrafts under license including the MiG 21FL/M/BIS, MiG-27, Dornier 228, Su-30 Mkl, Hawk Mk 132 aircraft etc.
- ❑ HAL derives ~93% of sales from Indian Defence Services and export its products and services, primarily spares to more than 21 countries. The company's operations are spread over 20 production divisions and 10 R&D centers
- ❑ HAL's revenue from operations grew from Rs15,938cr in the FY15 to Rs21,438cr in the FY20 representing a CAGR of 6.1% contributing from all the segments. The EBIDTA margin has also improved from 15.0% during FY15 to 22.9% during FY20.
- ❑ As of September 30, 2020 the company has cash and cash equivalents of Rs213cr. The company does not have any long-term indebtedness. HAL has a record of continuous dividend distribution for over four decades, reflecting strong financial track record.
- ❑ We note that HAL's capabilities in manufacturing and servicing of defense aircrafts and helicopters makes it a direct comparable to established International defense players. It thus faces no competition domestically and only from international players. HAL has the following positives in its favor - wide portfolio comprising of indigenous and licensed products, long credible history of proven design and development capabilities, expansion and diversification into new growth areas of engines, UAVs, civil aircrafts and exports and strong balance sheet.
- ❑ Thus based on the business capabilities, industry growth prospects and valuations, we initiate our coverage on **Hindustan Aeronautics Limited** with a **BUY** rating and a target price of **₹1,152 per share**.

Q2-FY21 Results (Consolidated)

(In ₹ mn)	Q2-FY21	Q2-FY20	Chg	6M-FY21	6M-FY20	Chg
Net Sales	48,536	34,490	40.7%	65,903	67,384	-2.2%
Operating Expense	38,240	27,485	39.1%	51,764	51,896	-0.3%
EBITDA	10,296	7,005	47.0%	14,139	15,489	-8.7%
Other Income	880	407	116.2%	1,352	1,002	35.0%
Depreciation	2,198	1,648	33.4%	3,311	2,815	17.6%
EBIT	8,978	5,764	55.8%	12,181	13,675	-10.9%
Interest	715	1,010	-29.2%	1,761	1,777	-0.9%
PBT	8,263	4,754	73.8%	10,420	11,899	-12.4%
Tax	2,112	(1,404)	-250.5%	2,774	1,133	144.8%
Exceptional Items	-	55		-	1,071	
PAT	6,151	6,213	-1.0%	7,646	11,837	-35.4%
Minority /Other Adj.	2	4		(7)	93	
Consolidated PAT	6,152	6,217	-1.0%	7,639	11,930	-36.0%

Margins	Q2-FY21	Q2-FY20	ChgBPS	6M-FY21	6M-FY20	ChgBPS
Operating Margin %	21.2%	20.3%	90	21.5%	23.0%	-153
Net Margin %	12.7%	18.0%	-534	11.6%	17.6%	-596

Source: Company, Anand Rathi Research

Market leadership through diverse product mix



- ❑ HAL's products portfolio includes fighter aircraft, trainer aircraft, transport aircraft, military helicopter and civil helicopters and their engines, avionics and accessories (such as special test equipment and ground handling equipment and ground support equipment), which are both indigenously designed or manufactured under license.

Leadership position in Indian Aerospace industry & strong
GOI support

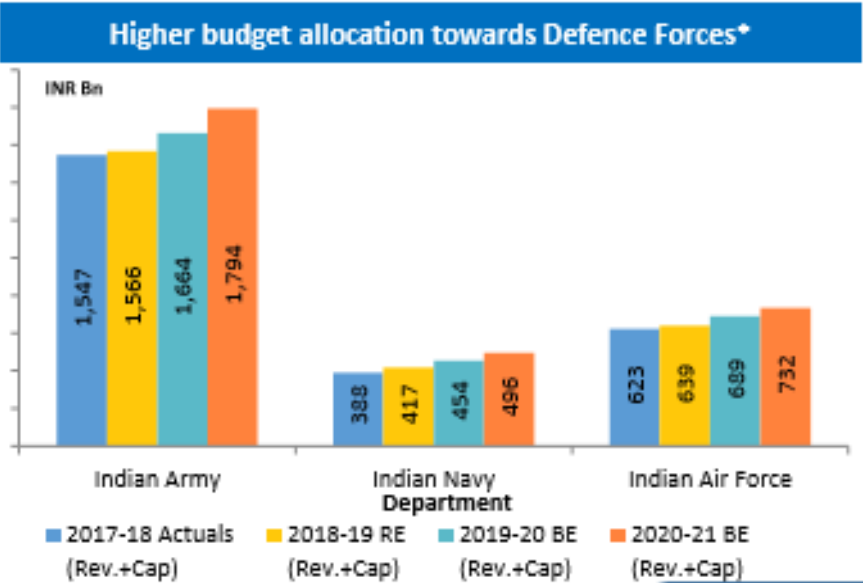


Fleet Support

- ❑ The company has a leadership position in the Indian aeronautical industry as a result of long-standing relationship, particularly with the Indian Defence Services and the DRDO as well as with various academic institutions and regulatory agencies.
- ❑ India has 2nd largest military in the world and 3rd largest spender in defence and **80% of their total defence fleets are supported by HAL.**
- ❑ HAL is also poised to gain under the “Atmanirbhar Bharat Abhiyan” as government is significantly impetus to self reliance and local production.
- ❑ Given the long-term nature of company’s relationship with GoI, the Indian Defence Services typically reach out to HAL for the majority of their needs for aerospace products and services.

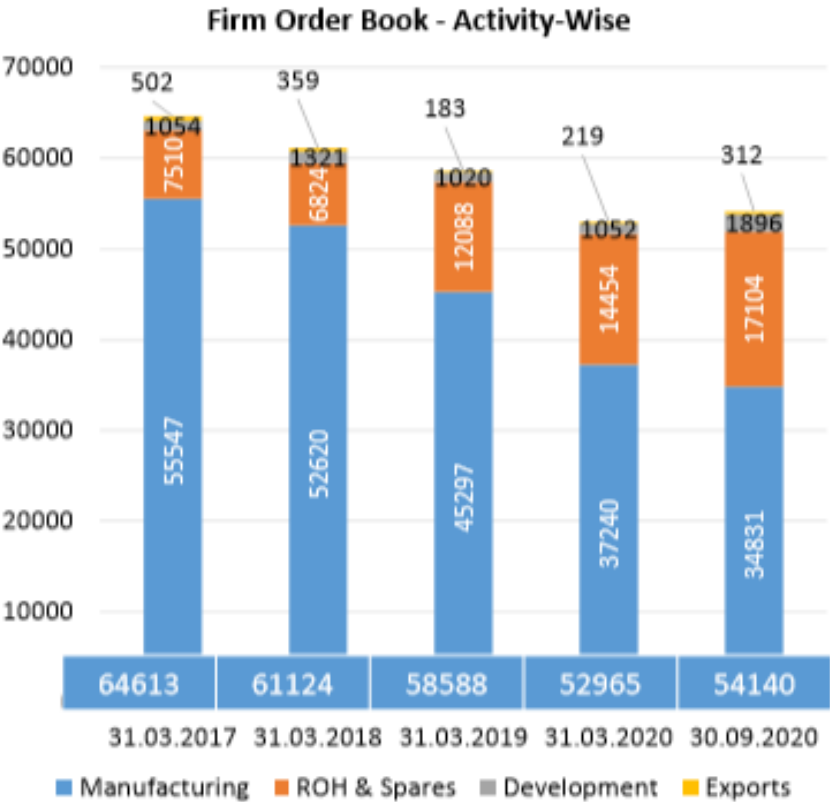


HAL is the largest aerospace supplier to IDS, stands to gain with increasing budgetary allocation



- Both military and commercial aerospace sectors have good growth potential in India. The Defence budget allocation has been continuously increasing over the years.
- In Budget 2020–21, the fund allocation for Capital and Revenue Expenditure has increased by 2.1% over the previous year. The surge in Defence Budget allocation in India is a crucial factor in the development of the Aerospace Industry in the country.
- Earlier 60% of defence requirements were dependent on imports but with “Make in India” and “Atmanirbhar Bharat Abhiyan” government has increase limit of FDI in defence manufacturing from 49% to 74%. Moreover separate budget for Indian-made defence equipment has been announced to make the country self-reliant in defence which will overall increase the HAL revenue.

Robust Order Book provides revenue visibility

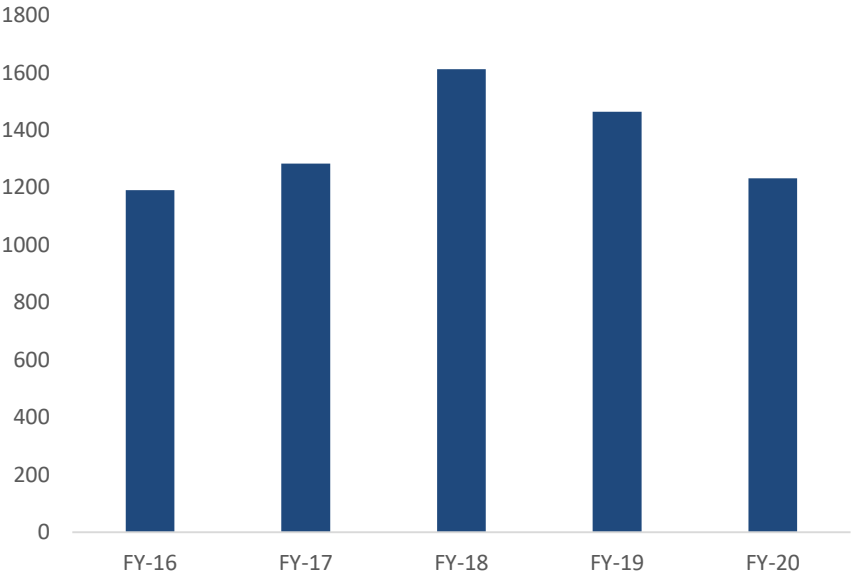


- ❑ Currently the company has an order backlog of ~`54,000cr which is expected increase substantially over the next few years as the company is likely to get many new orders including orders for 83 LCA Mark 1A worth `39,000cr which is expected to go for cabinet approval very soon.
- ❑ The company also has various other projects in the pipeline including Light Utility Helicopter (LUH) and the company is likely to fetch some orders for the same in FY2021.
- ❑ These projects will ensure order flow for the company over the next couple of years.
- ❑ Post the LCA Mark 1A and the LUH, company is expected to get orders for LCA Mark II followed by the Advanced Medium Combat Aircraft (AMCA).
- ❑ Moreover the company will keep getting orders for upgrades of existing aircrafts which will ensure a constant flow of orders for the company.



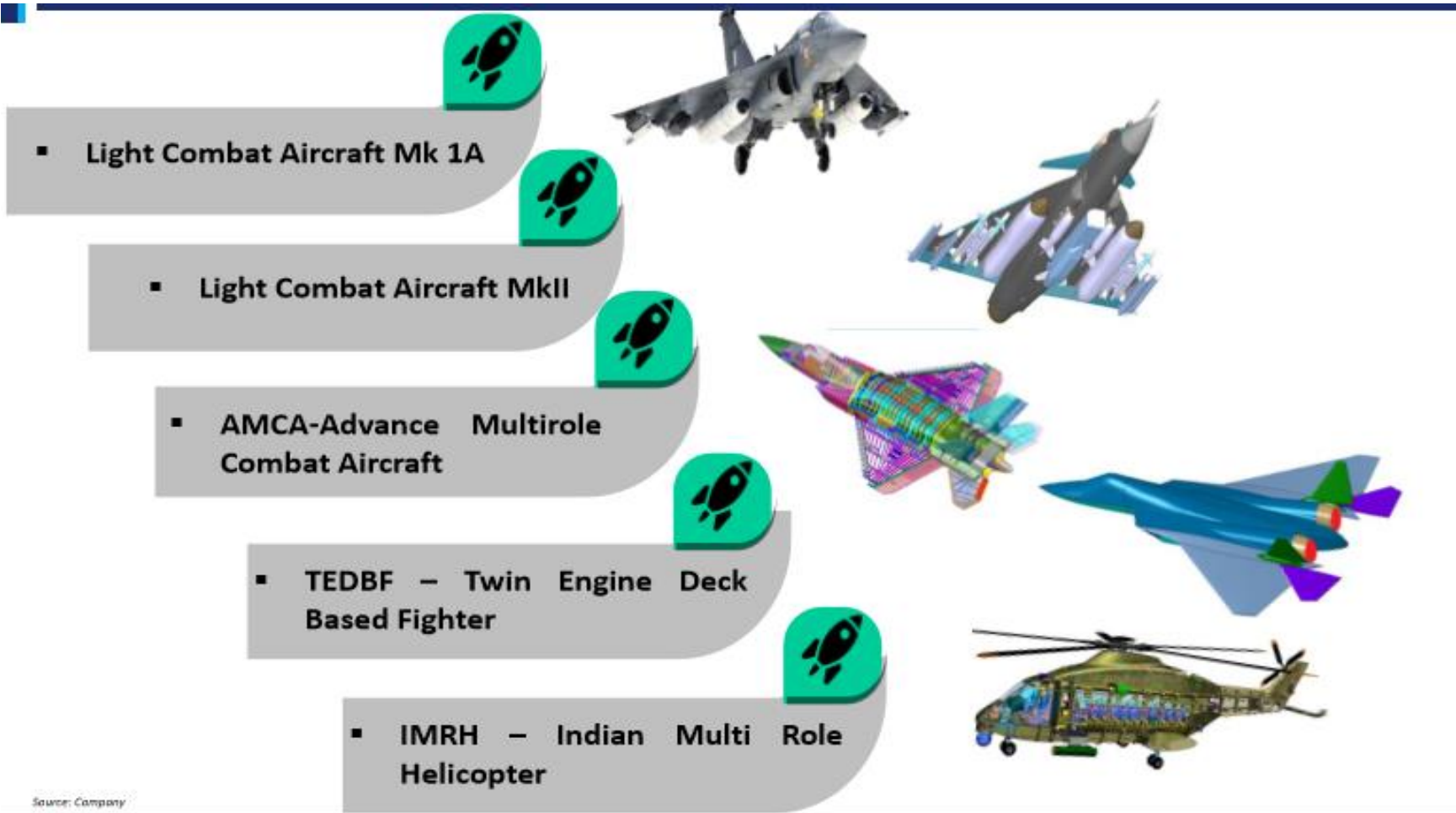
Strong R&D Capabilities

R&D Expenses (₹ Cr.)



- ❑ HAL has 10 dedicated R&D centres capable of developing a wide range of products, upgrading products with combat operational capability and operational performance and maintaining a pipeline of products to meet future needs.
- ❑ Towards the progress of the R&D efforts, the Company has incurred a total expenditure of `1,232cr for the year 2019-20 which is 6 % of the Turnover. Further, an amount of `254cr has been transferred to the R&D reserve during the year.
- ❑ They have collaborated with IITs and IISc for talent acquisition and aerospace research.
- ❑ Development of in house capabilities to design and develop specialized products including aero engines.

Future Design projects



- Light Combat Aircraft Mk 1A

- Light Combat Aircraft MkII

- AMCA-Advance Multirole Combat Aircraft

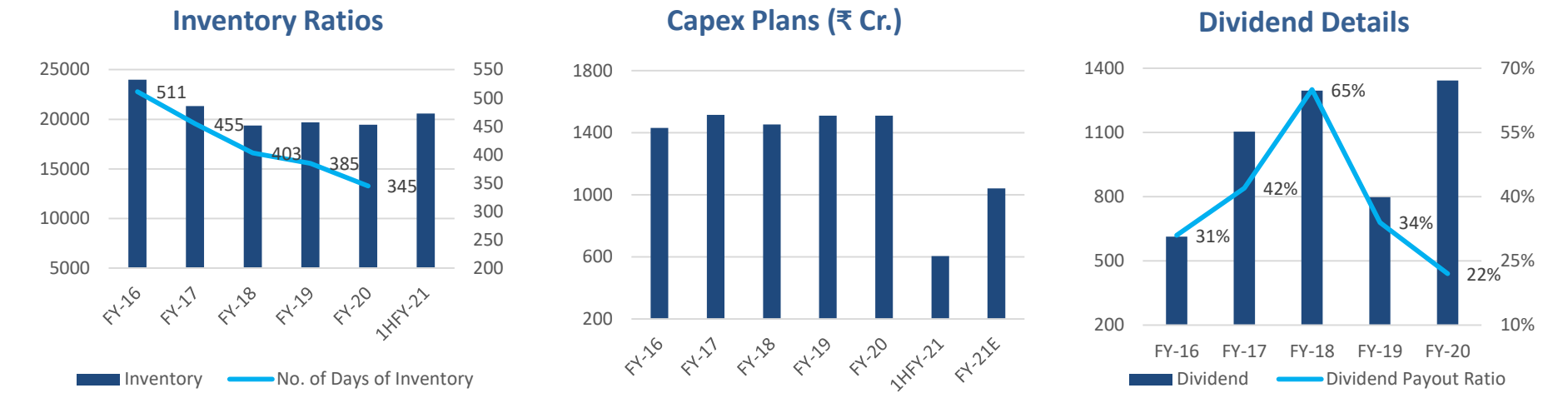
- TEDBF – Twin Engine Deck Based Fighter

- IMRH – Indian Multi Role Helicopter

Source: Company



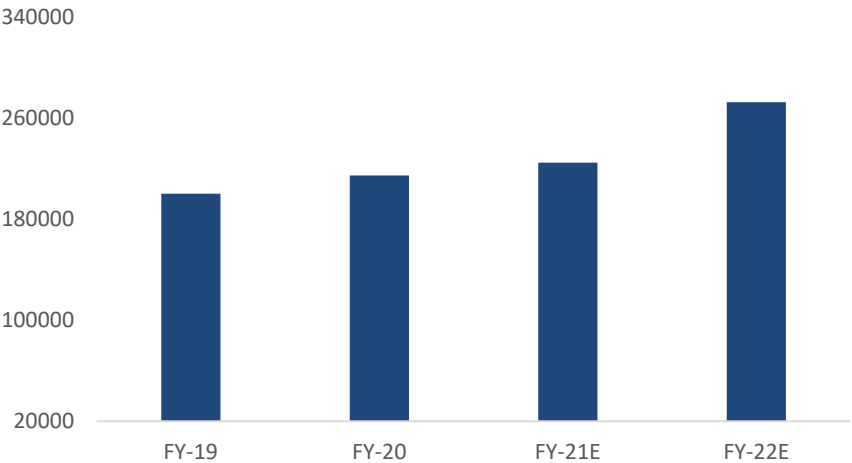
Financial performance & Summary



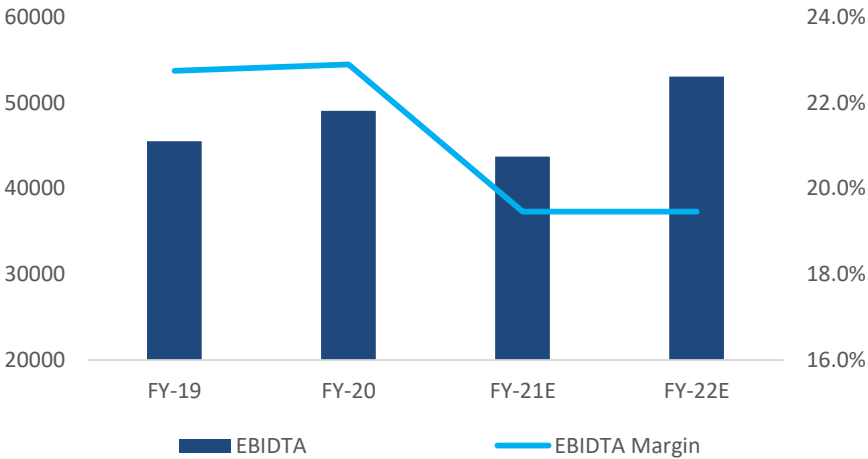
- ❑ HAL also has strong execution capabilities, which is reflected in its topline and bottomline growth of 6.1% and 4.1% CAGR, respectively, in FY15-20.
- ❑ HAL has a record of continuous dividend distribution reflecting strong financial track record.
- ❑ Company has considered the possible effect on the carrying amount of Property, Plant and Equipment, Investments, Inventories, receivables and other current assets. There is no material impairment to be recognized.
- ❑ As major portion of Company's revenue is generated from Defense services the impact of Covid-19 will be minimal.

We expect the company to register continued growth in revenues

Revenue estimates (₹ Mn.)



EBITDA & EBITDA margin estimates

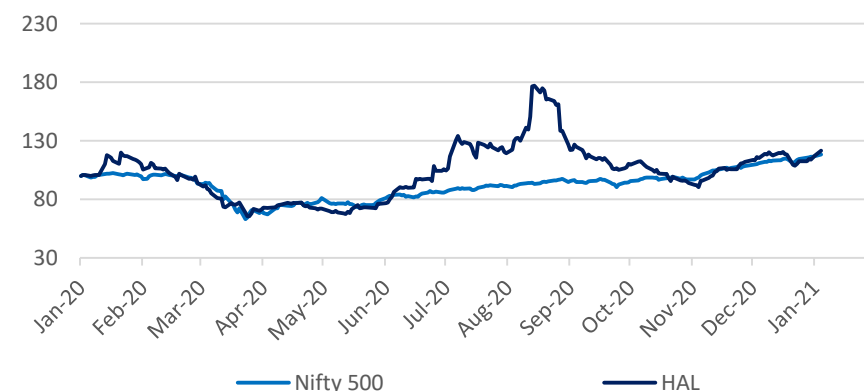


Considering the strong pipelines of orders and given the Government’s thrust on make in Indian especially for defence sector, we expect Hindustan Aeronautics to grow with a CAGR of ~13% to ₹272,503 million in FY22E with EBITDA margin stands at 19.5%.

Valuation and Recommendation:

- ❑ Given strong balance sheet, robust order book and execution capabilities, we are constructive on HAL long term prospect.
- ❑ At CMP the stock is trading at 13x times FY22E earnings.
- ❑ We initiate our coverage with **BUY** rating on Hindustan Aeronautics Limited with a target price of **₹1,152 per share**.

Relative stock performance (Jan'20=100)



Source: Bloomberg, Anand Rathi Research

Key Ratios	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	69.6	85.9	69.7	88.7
P/E (x)	12.2	9.9	12.2	9.6
P/B (x)	2.4	2.1	1.8	1.5
ROE	19.3%	21.7%	15.0%	16.0%
ROCE	17.5%	19.8%	14.8%	16.5%
EV/EBIDTA (x)	5.8	5.5	6.1	0.0

Source: Company, Anand Rathi Research

Consolidated Financials:

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	200,082	214,382	224,589	272,503
Operating Expense	154,570	165,309	180,880	219,469
EBITDA	45,513	49,073	43,709	53,034
Other Income	3,755	2,939	3,079	3,736
Depreciation	10,253	9,985	10,838	11,658
EBIT	39,015	42,026	35,951	45,113
Interest	1,776	3,596	3,720	4,125
Misc. items	-	1,189	-	-
PBT	37,239	39,620	32,230	40,987
Tax	13,963	10,960	8,916	11,338
Minority Interest	10	72	-	-
PAT	23,286	28,732	23,315	29,649

Margins	FY-19	FY-20	FY-21E	FY-22E
Sales Growth %	8.0%	7.1%	4.8%	21.3%
Operating Margin %	22.7%	22.9%	19.5%	19.5%
Net Margin %	11.6%	13.4%	10.4%	10.9%

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
<u>Liabilities</u>				
Equity Share Capital	3,344	3,344	3,344	3,344
Reserves & Surplus	117,477	129,045	152,358	182,007
Total Shareholder's Funds	120,821	132,389	155,702	185,351
Minority Interest	45	43	43	43
Long-Term Liabilities	1,000	-	-	-
Other Long-term Liabilities	103,343	90,060	91,934	93,934
Deferred Tax Liability	(2,593)	(4,701)	(5,000)	(5,500)
Short-term Liabilities	281,929	310,186	324,955	394,280
Total	504,545	527,976	567,634	668,108
<u>Assets</u>				
Net Fixed Assets	89,614	94,002	94,637	93,879
Long-Term L&A	5,800	6,642	7,000	7,400
Non Current Investments	9,097	9,908	9,908	9,908
Other Non-Current Assets	3,554	3,455	3,600	3,800
Current Asset	396,479	413,969	452,490	553,122
Total	504,545	527,976	567,635	668,109

Risks & Concerns

- ❑ Competition from foreign players.
- ❑ Dependent on OEMs for supply of various components / spare parts required for the manufacture and overhaul of Aircraft/ Helicopters.
- ❑ Depending heavily on Ministry of Defence (MoD) contracts, quantum of allocation of Defence budget and timely allocation of budget.



Rating and Target Price history:

HAL IN rating history & price chart



Source: Bloomberg, Anand Rath Research

NOTE: Prices are as on 04th Jan 2021 close.

HAL IN rating details

Date	Rating	Target Price (₹)	Share Price (₹)
05-Jan-21	BUY	1,152	925

Source: Bloomberg, Anand Rath Research



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