

Healthy execution drives strong performance...

About the stock: Hindustan Aeronautics (HAL), the largest defence PSU in India, is engaged in design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including, aircraft, helicopters, aero-engines, avionics, accessories and aerospace structures

- The company has delivered revenue, EBITDA and PAT CAGR of 7.4%, 12% and 26.5% respectively, in FY18-22. In FY22, repair & overhaul contributed ~64% to total revenues while manufacturing contributes ~30%

Q1FY23 Results: HAL reported excellent Q1FY23 results.

- Revenue for the quarter increased 124.2% YoY to ₹ 3,622.5 crore
- EBITDA margin increased 781 bps to 22.8% led by operating leverage benefits on higher revenue growth
- EBITDA increased sharply by 240.8% YoY to ₹ 826.3 crore
- PAT increased 218.5% YoY to ₹ 620.1 crore

What should investors do? We expect HAL to deliver revenue and EBITDA CAGR of 7.7% and 14.1%, respectively, in FY22-24E. PAT is likely to grow at ~10% CAGR (FY21-24E). Increase in profitability with strong asset turnover will result in healthy return ratios over FY23-24E.

- We continue to remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value HAL at ₹ 2,860 i.e. 20x PE on FY24E EPS.

Key triggers for future price performance:

- Healthy order-book position (₹ 82200 crore; ~3.3x FY22 revenues) led by large scale orders in manufacturing of aircraft/helicopters (LCA, LCH, ALH)
- Continuous order inflows in maintenance, repair & overhaul (MRO) with strong order pipeline of ~₹ 1.25 lakh crore in manufacturing for the next three to four years (led by LUH, LCH and engines for Su-30 & MiG-29)
- LCA Tejas MK1A, largest order in manufacturing, deliveries to IAF expected from FY25E. Moreover, execution of other key orders and sustained growth in MRO will drive revenue growth in double digits from FY25E

Alternate Stock Idea: We also like Bharat Electronics (BEL) in defence space.

- Strong growth in profitability led by well execution of healthy order backlog and sustained margins. Strong balance sheet, double digit returns ratios
- BUY with a target price of ₹ 315/share



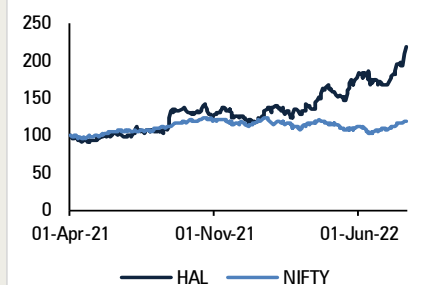
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	75,706
Total Debt (FY22 - ₹ Crore)	-
Cash (FY22 - ₹ Crore)	3,079
EV (₹ Crore)	72,627
52 Week H/L (Rs)	1,970 / 1,011
Equity Capital	334
Face Value	10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	75.2	75.2	75.2	75.2
FII	2.3	3.2	4.4	5.6
DII	5.4	18.3	17.0	15.7
Others	17.2	3.4	3.5	3.6

Price Chart



Key risks

- Dependence on government contracts
- Dependence on foreign OEMs for key components

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenues	20,008	21,438	22,882	24,620	5.3	26,227	28,556	7.7
EBITDA	4,543	4,896	5,336	5,409	4.5	6,425	7,039	14.1
EBITDA margin (%)	22.7	22.8	23.3	22.0		24.5	24.7	
Profit Before Tax	3,725	3,969	4,283	5,225	8.8	5,776	6,312	9.9
EPS (₹)	69.6	85.9	97.1	151.9		130.9	143.1	
P/E (x)	32.5	27.2	23.4	14.9		17.3	15.8	
EV/EBITDA (x)	17.5	16.6	12.8	11.3		9.7	8.7	
RoCE (%)	24.0	21.9	29.4	27.4		30.6	30.8	
RoE (%)	19.3	21.0	21.0	26.3		23.2	23.4	

Key takeaways of recent quarter

Q1FY23 Results: Strong revenue growth with better margins

- Revenue from operations for the quarter increased 124.2% YoY to ₹ 3,622.5 crore (vs. I-direct estimate of ₹ 1,742.3 crore); led by lower base and better than expected execution in MRO contracts
- EBITDA margin increased 781 bps to 22.8%; better than our estimate of 17.9% mainly on account of better-than-expected operating leverage benefits on higher revenue growth
- EBITDA increased sharply by 240.8% YoY to ₹ 826.3 crore (vs. our estimate of ₹ 311.8 crore)
- PAT increased 218.5% YoY to ₹ 620.1 crore against our estimate of ₹ 256.4 crore; primarily due to better-than-expected revenues and EBITDA margins
- Though the revenue break-up is not available at this point, we believe that strong growth in revenues is primarily led by better execution in Maintenance, Repair and Overhaul (MRO) segment
- Order backlog was at ₹ 82,153 crore at the end of March 2022 (~3.3x FY22 revenues), of which manufacturing segment order backlog is at ₹ 61,564 crore (75% of total OB) led by large scale orders of LCA, LCH and ALH)
- Though the manufacturing segment constituted ~75% of the March 2022 end order backlog, execution in MRO segment (order inflows increased significantly for MRO segment in FY22) has driven Q1FY23 revenue growth as the execution period is relatively shorter for MRO contracts. Moreover, lower base (as Q1FY22 revenues declined 7% YoY) also helped in significant YoY growth in revenues

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Operating Income	3,622.5	1,742.3	1,615.8	124.2	11,561	-68.7	Strong revenue growth led by lower base and better execution
Other income	191.6	160.0	150.1	27.6	501	-61.7	
Total Revenue	3,814.1	1,902.3	1,766.0	116.0	12,061.8	-68.4	
Raw materials costs	1,015.3	0.0	-225.5	-550.1	4,637	-78.1	
Employees Expenses	1,017.8	945.5	1,058.3	-3.8	1,403	-27.4	
Other Expenses	763.1	485.0	540.6	41.2	3,021	-74.7	
Total Expenditure	2,796.2	1,430.5	1,373.4	103.6	9,061	-69.1	
EBITDA	826.3	311.8	242.5	240.8	2,499.8	-66.9	
EBITDA margins (%)	22.8	17.9	15.0	781 bps	21.6	119 bps	EBITDA margin improved YoY led by operating leverage benefits on strong revenue growth
Interest	0.2	0.0	14.7		42.1		
Depreciation	208.2	130.0	111.5	86.8	382.5	-45.6	
Tax	202.1	85.5	69.4	191.2	-528.1	-138.3	
PAT	620.1	256.4	194.7	218.5	3,105.1	-80.0	

Source: Company, ICICI Direct Research

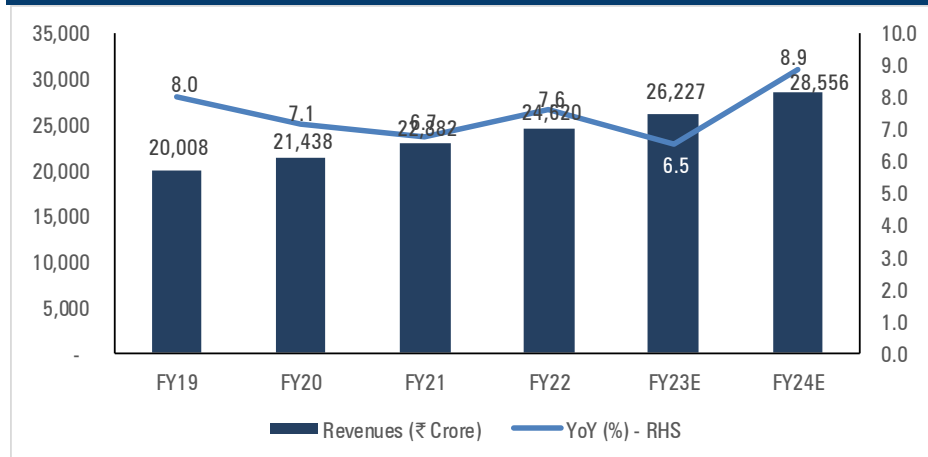
Exhibit 2: Change in estimates

	FY20	FY21	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	21,438	22,882	24,620	26,005	26,227	0.9	28,077	28,556	1.7
EBITDA	4,896	5,336	5,409	6,104	6,425	5.3	6,765	7,039	4.1
EBITDA Margin (%)	22.8	23.3	22.0	23.5	24.5	103 bps	24.1	24.7	56 bps
PAT	2,782	3,240	5,080	4,134	4,378	5.9	4,594	4,784	4.1
EPS (₹)	83.2	96.9	151.9	123.6	130.9	5.9	137.4	143.1	4.1

Source: ICICI Direct Research

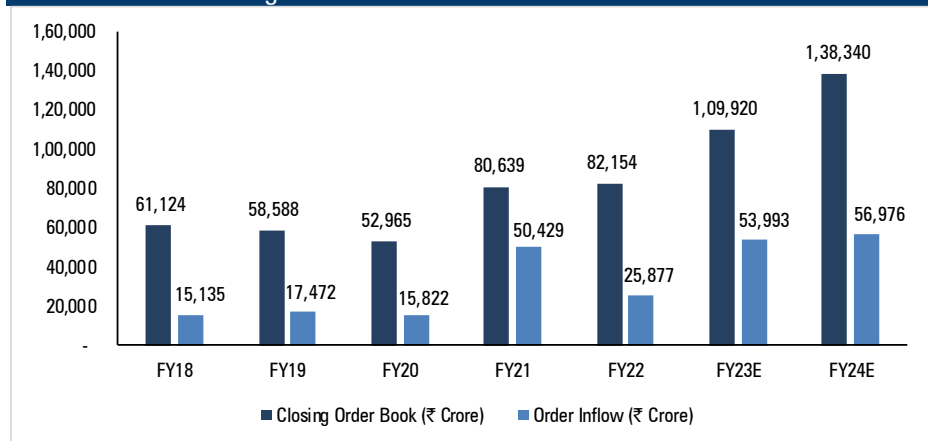
Financial story in charts

Exhibit 3: Revenue trend



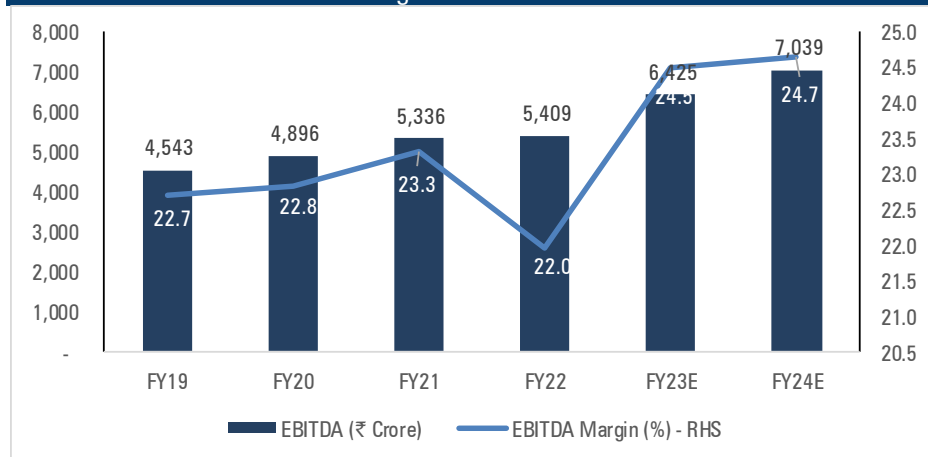
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog and order inflows trend



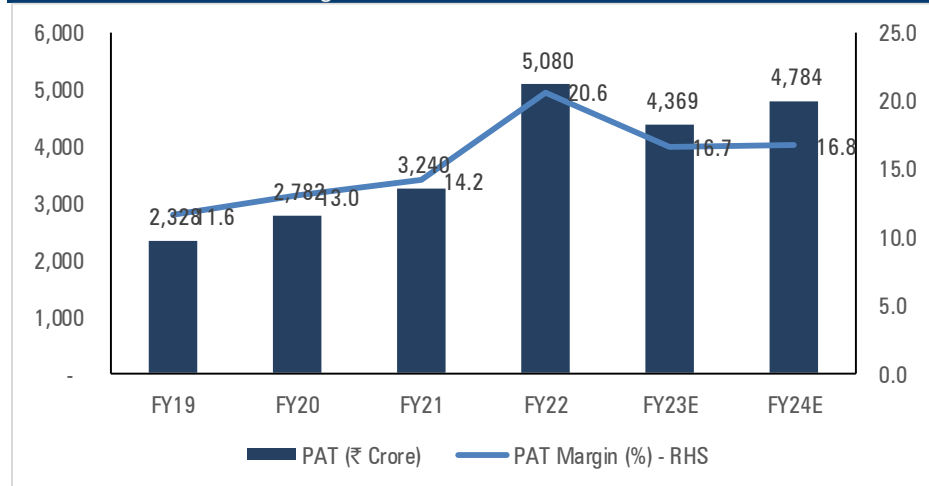
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



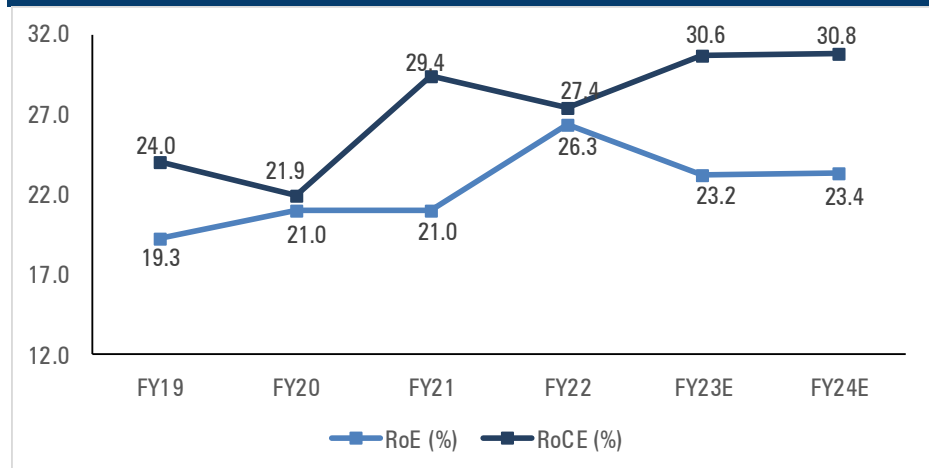
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 7: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Revenue	21,438	22,882	24,620	26,227	28,556
% Growth		6.7	7.6	6.5	8.9
Other income	293.9	357.5	984.9	650.0	700.0
Total Revenue	21,732	23,247	25,613	26,883	29,265
% Growth		7.0	10.2	5.0	8.9
Total Raw Material Costs	9,387	11,191	10,001	12,458	13,564
Employee Expenses	4,778	4,305	4,604	4,721	4,997
other expenses	2,377	2,049	4,606	2,623	2,955
Total Operating Expenditure	16,542	17,546	19,211	19,802	21,516
Operating Profit (EBITDA)	4,896	5,336	5,409	6,425	7,039
% Growth		9.0	1.4	18.8	9.6
Interest	348	259	58	-	-
PBDT	4,842	5,435	6,335	7,075	7,739
Depreciation	999	1,158	1,111	1,311	1,428
PBT before Exceptional Items	3,843	4,277	5,225	5,764	6,312
Total Tax	1,096	1,038	145	1,398	1,527
PAT before MI	2,873	3,246	5,080	4,378	4,784
Minority Interest	-	-	-	-	-
PAT	2,873	3,246	5,080	4,378	4,784
% Growth		13.0	56.5	(13.8)	9.3
EPS	85.9	97.1	151.9	130.9	143.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	2,873	3,246	5,080	4,378	4,784
Depreciation	999	1,158	1,111	1,311	1,428
Interest	348	259	58	-	-
Cash Flow before WC change	4,220	4,663	6,249	5,690	6,212
Changes in inventory	228	2,763	2,326	(1,101)	(1,372)
Changes in debtors	1,223	5,567	1,027	(388)	(447)
Changes in loans & Advances	8	12	(0)	-	-
Changes in other current asse	81	(105)	(1,413)	186	(233)
Net Increase in Current Assets	(1,553)	7,877	2,562	(2,501)	(3,399)
Changes in creditors	1,455	(1,828)	302	173	242
Changes in provisions	548	(1,106)	1,121	(552)	400
Net Inc in Current Liabilities	1,064	163	(382)	1,913	2,157
Net CF from Operating activities	3,731	12,703	8,429	5,102	4,970
Changes in deferred tax asset	(211)	418	(513)	-	-
(Purchase)/Sale of Fixed Asse	(1,243)	(586)	(1,118)	(1,200)	(1,200)
Net CF from Investing activities	(2,983)	1,658	(11,123)	(970)	(1,239)
Dividend and Dividend Tax	(1,340)	(1,003)	(1,672)	(1,766)	(1,926)
Net CF from Financing Activities	(489)	(7,484)	(1,375)	(4,906)	(3,121)
Net Cash flow	259	6,877	(4,068)	(773)	610
Opening Cash/Cash Equivalent	11	270	7,146	3,079	2,305
Closing Cash/ Cash Equivalent	270	7,146	3,079	2,305	2,915

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore

(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	334.4	334.4	334.4	334.4	334.4
Reserve and Surplus	12,904	15,090	18,979	18,489	20,152
Total Shareholders fund	13,239	15,424	19,313	18,824	20,487
Other Non Current Lia	7,056.5	9,171.3	12,262.4	12,500.0	12,500.0
Total Debt	5,887	9	-	-	-
Total Liabilities	28,027	26,360	33,369	33,143	34,805
Gross Block	8,861	9,674	10,628	11,827	13,027
Acc: Depreciation	3,324	4,048	4,700	6,012	7,439
Net Block	6,351	6,222	5,928	5,815	5,588
Capital WIP	860	663	949	950	950
Total Fixed Assets	9,400	9,115	9,239	9,165	8,938
Non Current Assets	1,493	1,150	2,797	2,829	2,868
Inventory	19,436	16,673	14,347	15,449	16,821
Debtors	11,235	5,668	4,642	5,030	5,476
Loans and Advances	19	8	8	8	8
Other Current Assets	1,291	1,396	2,809	2,623	2,856
Cash	270	7,146	3,079	2,305	2,915
Total Current Assets	41,347	40,347	33,716	35,444	39,453
Current Liabilities	4,084	2,256	2,558	2,730	2,973
Provisions	1,289	1,256	1,263	1,265	1,265
Total Current Liabilities	25,241	25,404	25,023	26,936	29,092
Net Current Assets	16,106	14,943	8,694	8,508	10,360
Total Assets	28,027	26,360	33,369	33,143	34,805

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
EPS	85.9	97.1	151.9	130.9	143.1
Cash per Share	9.2	214.7	429.3	406.2	424.4
BV	395.9	461.3	577.6	562.9	612.7
Dividend per share	33.2	30.0	40.0	44.0	48.0
Dividend payout ratio	39%	31%	26%	34%	34%
EBITDA Margin	22.8	23.3	22.0	24.5	24.7
PAT Margin	13.5	14.2	20.6	16.7	16.8
RoE	21.0	21.0	26.3	23.2	23.4
RoCE	21.9	29.4	27.4	30.6	30.8
RoIC	20.7	50.4	26.5	31.0	31.9
EV / EBITDA	16.6	12.8	11.3	9.7	8.7
P/E	27.2	23.4	14.9	17.3	15.8
EV / Net Sales	3.8	3.0	2.5	2.4	2.2
Sales / Equity	1.6	1.5	1.3	1.4	1.4
Market Cap / Sales	3.5	3.3	3.1	2.9	2.7
Price to Book Value	5.7	4.9	3.9	4.0	3.7
Asset turnover	1.1	1.5	1.3	1.4	1.4
Debtors Turnover Ratio	1.8	2.7	4.8	5.4	5.4
Creditors Turnover Ratio	6.4	7.2	10.2	9.9	10.0
Debt / Equity	0.4	0.0	-	-	-
Current Ratio	2.6	2.8	2.1	2.3	2.4
Quick Ratio	1.0	0.8	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,850	2,175	Buy	259592	56.8	65.0	76.7	32.6	28.5	24.1	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,835	3,040	Buy	100960	29.5	36.7	48.5	96.1	77.2	58.4	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,555	3,011	Buy	24099	64.6	79.8	86.0	39.6	32.0	29.7	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,111	2,405	Buy	25154	26.2	38.7	53.4	80.5	54.6	39.5	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	391	474	Hold	10053	12.9	15.5	29.6	30.3	25.2	13.2	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	172	209	Buy	3977	0.7	3.5	3.6	243.0	48.8	48.1	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	449	474	Hold	14229	5.7	6.6	9.1	78.6	68.1	49.3	18.9	17.8	21.0	18.7	18.5	21.1
Bharat Electronics (BHAELE)	291	315	Buy	70905	9.6	11.3	12.6	30.2	25.8	23.1	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	336	340	Hold	4420	42.9	38.6	42.3	7.8	8.7	7.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,500	4,920	Buy	22247	77.0	104.8	122.9	58.4	42.9	36.6	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,115	2,810	Buy	23431	43.5	54.8	62.5	71.6	56.8	49.8	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	140	220	Buy	1357	7.8	9.2	12.1	17.9	15.2	11.6	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	230	285	Buy	2739	8.8	12.5	15.7	26.1	18.4	14.6	23.0	22.5	23.6	13.9	15.6	16.4
Data Patterns (DATPAT)	840	900	Buy	4358	18.1	21.7	28.0	46.4	38.7	30.0	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,264	2,860	Buy	75706	151.9	130.9	143.1	14.9	17.3	15.8	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	2,795	3,275	Buy	59228	25.5	38.9	43.7	109.7	71.9	64.0	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	801	890	Buy	1089	33.2	37.5	49.3	24.1	21.3	16.2	19.9	23.8	26.8	13.6	17.1	19.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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