

Strong earnings visibility on large orders in pipeline...

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 contributed ~30%

Conference call Highlights:

- Key orders in the pipeline for the next one to two years include 70 HTT-40, 25 advanced light helicopters (ALH) for Army, six Dornier aircraft, 12 light utility helicopters (LUH), 12 Sukhoi-30 MKI and 240 AL-31 engines for Sukhoi-30 MKI aircraft
- In the longer term (three to five years), key orders in the pipeline are 145 LCH, 175 LUH, 60 Marine ALH, 36 HTT-40, 18 RD-33 engines for MiG-29 and medium weight fighter (Tejas MK2)

What should investors do? We expect HAL to deliver revenue and EBITDA CAGR of 7.7% and 14.1%, respectively, in FY22-24E. PAT 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 (₹ 84800 crore; ~3.2x TTM revenues) led by large scale orders in manufacturing aircraft/helicopters (LCA, LCH and ALH)
- Continuous order inflow in maintenance, repair & overhaul (MRO) with strong order pipeline of ~₹ 1.2 lakh crore in manufacturing in next three to four years (led by LUH, LCH, ALH, Dornier, HTT-40, 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 Dynamics (BDL) in the defence space.

- Strong earnings growth of ~25% CAGR expected over FY22-24E led by execution of existing strong order-book primarily comprising manufacturing of various types of indigenous missiles & torpedoes
- BUY with a target price of ₹ 1070/share



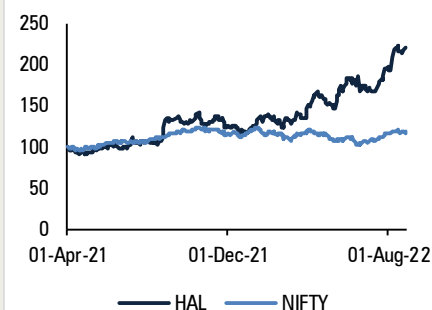
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	76,709
Total Debt (FY22 - ₹ Crore)	-
Cash (FY22 - ₹ Crore)	3,079
EV (₹ Crore)	73,631
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	FY23E	FY24E	2 Year CAGR
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)	33.0	27.6	23.7	15.1		17.6	16.0	
EV/EBITDA (x)	17.8	16.8	13.0	11.5		9.8	8.9	
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	

Source: ICICI Direct Research, Company

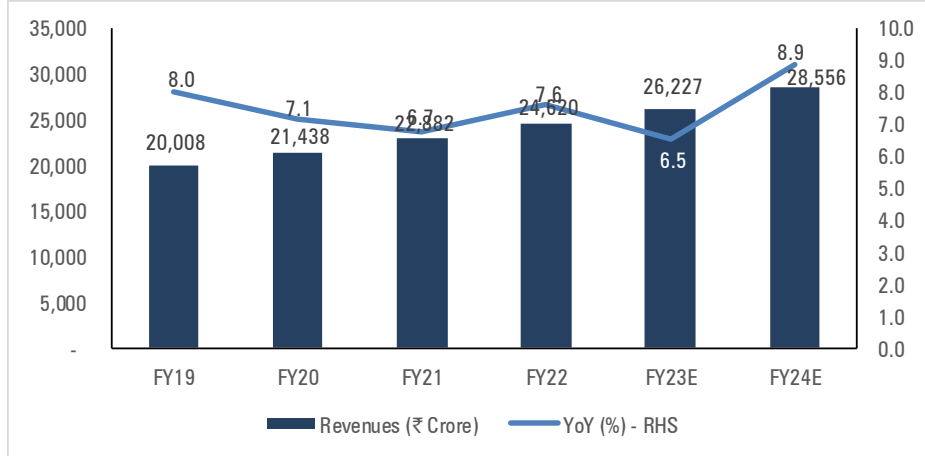
Key Highlights from Q1FY23 Earnings Call

- Order book was at ₹ 84800 crore as of June 2022 end. Order inflows were at ₹ 6000 crore during Q1FY23
- Key orders in the pipeline for the next one to two years include 70 HTT-40, 25 advanced light helicopters (ALH) for Army, six Dornier aircraft, 12 light utility helicopters (LUH), 12 Sukhoi-30 MKI and 240 AL-31 engines for Sukhoi-30 MKI aircraft
- These projects are in advanced stages of finalisation and orders are expected to materialise in FY23 or latest by H1FY24. Total estimated cost of these orders is at ₹ 45000 crore
- RFP has already been issued for AL-31 engines in August 2022. RFP for 25 ALH has already been issued and HAL has submitted its quotation. Final negotiations are in process and order is expected to be placed in FY23E. Production and delivery is expected to be completed in FY24-25E
- In the longer term (three to five years), key orders in the pipeline are 145 LCH, 175 LUH, 60 Marine ALH, 36 HTT-40, 18 RD-33 engines for MiG-29 and medium weight fighter (Tejas MK2)
- LUH has already taken its first flight in July 2022 and production is expected to roll out from the new greenfield facility for helicopters at Tumkur
- LCA MK1A took its first flight in February 2022 and production is as per schedule
- During the quarter, HAL and Safran helicopter engines have signed an agreement to create a new JV to develop helicopter engines (including the 13-ton IMRH - Indian multi-role helicopter)
- During FY22, the company produced and delivered 34 platforms, of which 30 were indigenously designed and developed
- LCAs, LCH, LUH, Dornier-228, HTT-40 are part of MoD's positive list of indigenisation, which shows assured orders of these platforms
- MoD has recently notified a third list of 780 sub-systems or components (used in defence platforms) of which 360 items are for HAL's platforms (aircraft/helicopters). These components will be sourced from domestic players (private and MSMEs) and will help the company to reduce dependence on foreign OEMs for these key components
- There is no interruption in component supplies from Russia. Inventory of key Russian components is available with the company. HAL is in continuous discussions with Russia for supply of required key components
- The company is also looking at increasing procurement from domestic private players and MSMEs for these key components
- LCA Tejas MK1A is one of the top contenders for Malaysia's 18 LCA tender. This tender is in advanced stages of finalisation from the Malaysia government
- Apart from LCA Tejas MK1A, the company is promoting ALH and LCH for exports. Some countries like Philippines, Nepal and Bangladesh have shown interest in these two platforms
- HAL is also pushing platforms like HTT-40 and LCA twin seater fighter aircraft for exports
- The company is in the process of opening offices in Malaysia to target other export markets in South East Asian countries. HAL is planning to open offices in other geographies also (Egypt, Middle East, North America) depending upon interest from these countries for HAL's platforms

- HAL targets revenue share from exports at 10% by FY25E
- R&D expenses are currently at 6-7% of sales and expected to increase in the coming period as the company focuses more on indigenous design and development
- Projects under development are medium weight fighter (Tejas MK2), advanced medium combat aircraft (AMCA), Indian multi role helicopter (IMRH), and twin engine deck based fighter (TEDBF)

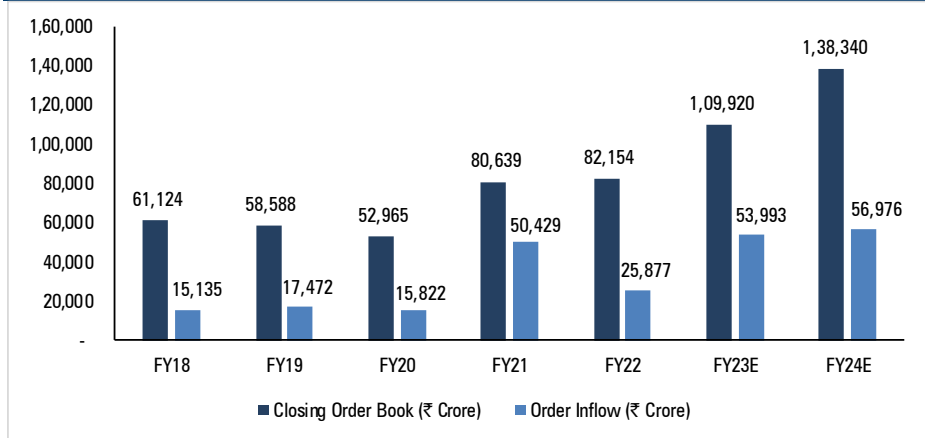
Financial story in charts

Exhibit 1: Revenue trend



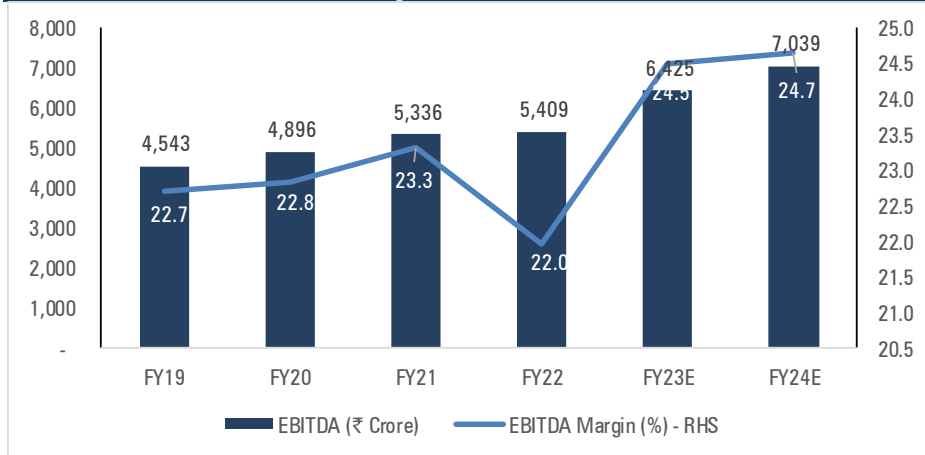
Source: Company, ICICI Direct Research

Exhibit 2: Order backlog and order inflows trend



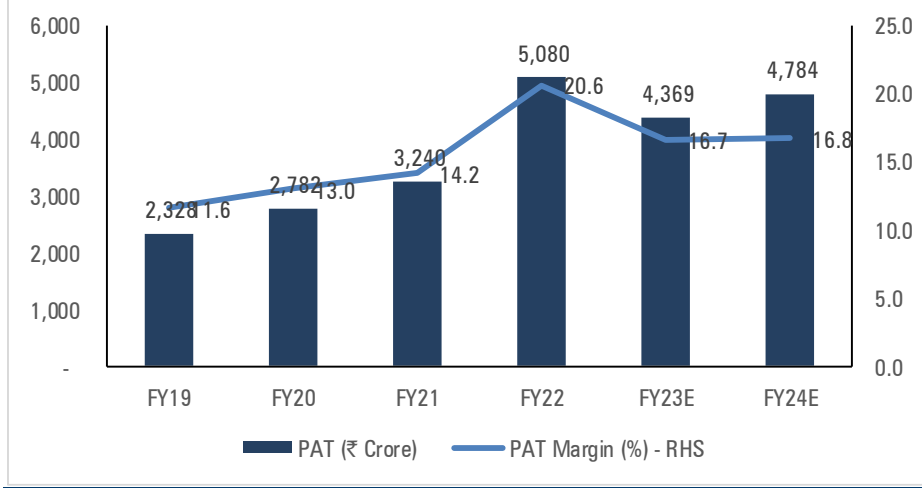
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and EBITDA margin trend



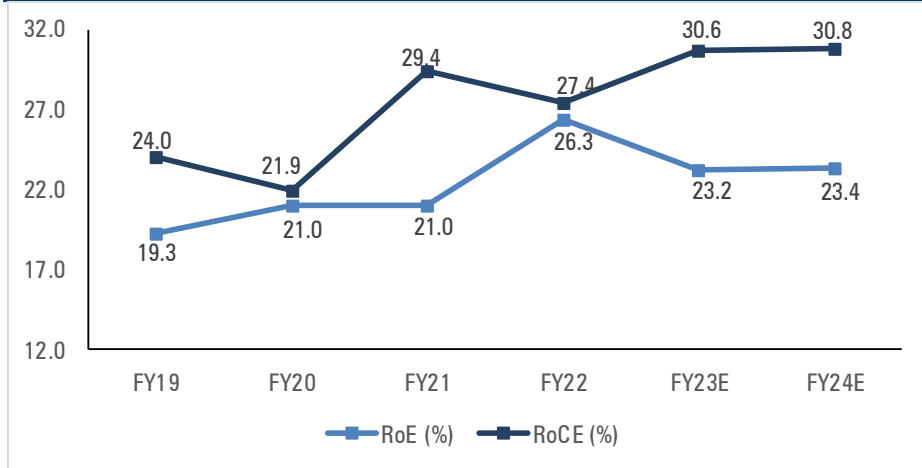
Source: Company, ICICI Direct Research

Exhibit 4: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 5: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: 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 7: 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 activiti	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 activitie	(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 Activitie	(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 8: 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 fu	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 Liabilitie	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 9: 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	16.8	13.0	11.5	9.8	8.9
P/E	27.6	23.7	15.1	17.6	16.0
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	3.6	3.4	3.1	2.9	2.7
Price to Book Value	5.8	5.0	4.0	4.1	3.7
Asset turnover	1.1	1.5	1.3	1.4	1.4
Debtors Turnover Rati	1.8	2.7	4.8	5.4	5.4
Creditors Turnover Ra	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 10: 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)	1,915	2,175	Buy	268713	56.8	65.0	76.7	33.7	29.5	25.0	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,877	3,040	Buy	102456	29.5	36.7	48.5	97.6	78.3	59.3	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,592	3,011	Buy	24448	64.6	79.8	86.0	40.1	32.5	30.1	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,419	2,405	Buy	28824	26.2	38.7	53.4	92.3	62.5	45.3	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	407	474	Hold	10464	12.9	15.5	29.6	31.5	26.3	13.7	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	170	209	Buy	3930	0.7	3.5	3.6	240.2	48.2	47.6	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	498	474	Hold	15782	5.7	6.6	9.1	87.2	75.5	54.6	18.9	17.8	21.0	18.7	18.5	21.1
Bharat Electronics (BHAELE)	306	315	Buy	74560	9.6	11.3	12.6	31.7	27.1	24.3	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	376	340	Hold	4946	42.9	38.6	42.3	8.8	9.7	8.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,860	4,920	Buy	24027	77.0	104.8	122.9	63.1	46.4	39.5	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,005	3,561	Buy	22603	43.5	61.3	71.2	69.1	49.0	42.2	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	163	220	Buy	1580	7.8	9.2	12.1	20.9	17.7	13.5	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	251	285	Buy	2989	8.8	12.5	15.7	28.5	20.1	16.0	23.0	22.5	23.6	13.9	15.6	16.4
Data Patterns (DATPAT)	1062	900	Buy	5510	18.1	21.7	28.0	58.6	48.9	37.9	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,294	2,860	Buy	76709	151.9	130.9	143.1	15.1	17.5	16.0	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,261	3,275	Buy	69103	25.5	38.9	43.7	128.0	83.9	74.7	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	923	890	Buy	1255	33.2	37.5	49.3	27.8	24.6	18.7	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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