

November 10, 2023

Q2FY24 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	2,266		2,266	
Sales (Rs.m)	3,26,857	3,67,868	3,26,857	3,67,868
% Chng.	-	-	-	-
EBITDA (Rs.m)	81,151	92,336	81,151	92,336
% Chng.	-	-	-	-
EPS (Rs.)	90.9	103.1	90.9	103.1
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	2,69,275	2,94,863	3,26,857	3,67,868
EBITDA (Rs. m)	66,792	71,695	81,151	92,336
Margin (%)	24.8	24.3	24.8	25.1
PAT (Rs. m)	46,262	53,031	60,776	68,944
EPS (Rs.)	69.2	79.3	90.9	103.1
Gr. (%)	17.8	14.6	14.6	13.4
DPS (Rs.)	27.5	23.8	27.3	30.9
Yield (%)	1.3	1.2	1.3	1.5
RoE (%)	21.6	20.9	20.7	20.3
RoCE (%)	14.0	14.3	14.3	14.4
EV/Sales (x)	4.4	3.8	3.3	2.8
EV/EBITDA (x)	17.6	15.8	13.4	11.3
PE (x)	29.8	26.0	22.7	20.0
P/BV (x)	5.8	5.1	4.4	3.8

Key Data

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52-W High / Low	Rs.2,111 / Rs.1,150
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.1,377bn / \$ 16,521m
Shares Outstanding	669m
3M Avg. Daily Value	Rs.3178.68m

Shareholding Pattern (%)

Promoter's	71.64
Foreign	12.63
Domestic Institution	9.72
Public & Others	6.02
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.1	39.4	69.4
Relative	7.0	33.0	58.2

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Reasonable quarter; long-term story intact

Quick Pointers:

- Gross margin contraction drove decline in EBITDA margin by 441bps.
- Higher other income at Rs4.7bn (up 81.3% YoY) aided marginal PAT growth.

Hindustan Aeronautics (HAL) reported revenue growth of 9.5% YoY in Q2FY24. EBITDA margin contracted by 441bps YoY to 27.1%, led by a sharp decline in gross margin. Fall in direct input to WIP/expenses capitalized largely offset the gross margin contraction, but EBITDA was still impacted by decrease in expenses relating to capital & other accounts, which is subtracted from operating expenses. HAL's JV with Safran ('SAFHAL Helicopter Engines') to design, develop & produce helicopter engines for IMRH & DBMRH projects has been formally incorporated. The company also signed a contract with Airbus to establish a Civil MRO Facility for A-320 aircrafts at Nashik.

We believe HAL is a long-term play on the growing strength & modernization of India's air defence given 1) its position as the primary supplier of India's military aircraft, 2) long-term sustainable demand opportunity, owing to the government's push on procurement of indigenous defence aircraft, 3) leap in HAL's technological capabilities due to development of more advanced platforms (Tejas, AMCA, etc.), 4) robust order book of Rs818bn with further 5-year pipeline of ~Rs2trn, and 5) improvement in profitability through scale and operating leverage. The stock is currently trading at a P/E of 26.0x/22.7x/20.0x on FY24/25/26E earnings. We maintain a 'BUY' rating with a TP of Rs2,266 (same as earlier), using an equal-weighted averaged of a DCF-derived price and a PE-derived price based on 23x Sep-25E (same as earlier).

Decent top-line growth, but margins contract: Consolidated revenue rose 9.5% YoY to Rs56.4bn, while gross margin declined by 565bps YoY to 58.3%. EBITDA fell 5.8% YoY to Rs15.3bn, with EBITDA margin contracting by 441bps YoY to 27.1%, driven by gross margin contraction & a 40.4% YoY fall in expenses relating to capital & other accounts to Rs2.9bn (down 437bps YoY as a % of sales), which is subtracted from operating expenses. This was partially offset by lower direct Input to WIP/expenses capitalised, which came in at Rs695mn vs Rs3.5bn in Q2FY23 (down 562bps YoY as a % of sales). PAT rose slightly by 1.3% YoY to Rs12.4bn, aided by higher other income (up 81.3% YoY to Rs4.7bn), despite a 38.8% YoY increase in depreciation & amortization expenses to Rs3.5bn.

Durable demand for modern indigenous military aircraft: India's strength of 31 fighter jet squadrons falls short of the sanctioned total of 42. This will be exacerbated by the phasing out of aging aircraft such as Mig-21, Mig-29, Jaguar, and Mirage. With HAL's monopoly-like position in India's defence aerospace sector coupled with the government's push to procure indigenously designed & developed defence aircraft, the company is in a sweet spot to benefit from a long-term demand opportunity. HAL is involved in several major fighter jet projects (Tejas Mk2, AMCA, TEDBF) and helicopter projects (LUH, LCH, IMRH) which will replace various outgoing fleets. It's manufacturing revenue is set to accelerate FY25 onwards.

Exhibit 1: Revenue growth of 9.5% YoY, but 595bps YoY decline in gross margin drives EBITDA margin contraction to 27.1%

Y/e March (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Revenue	51,448	56,655	1,24,947	39,154	56,357	9.5	43.9	95,511	87,673	8.9
Total Revenues	51,448	56,655	1,24,947	39,154	56,357	9.5	43.9	95,511	87,673	8.9
Expenditure	35,232	46,801	92,489	30,385	41,081	16.6	35.2	71,466	63,193	13.1
as % of sales	68.5	82.6	74.0	77.6	72.9			74.8	72.1	
Consumption of RM	18,410	24,897	47,561	10,242	23,519	27.8	129.6	33,760	28,562	18.2
as % of sales	35.8	43.9	38.1	26.2	41.7			35.3	32.6	
Employee Cost	11,447	11,328	16,150	14,037	11,959	4.5	(14.8)	25,996	21,625	20.2
as % of sales	22.2	20.0	12.9	35.9	21.2			27.2	24.7	
Other expenditure	5,375	10,576	28,777	6,107	5,603	4.2	(8.3)	11,709	13,006	(10.0)
as % of sales	10.4	18.7	23.0	15.6	9.9			12.3	14.8	
EBITDA	16,216	9,854	32,458	8,768	15,276	(5.8)	74.2	24,045	24,479	(1.8)
Depreciation	2,520	2,689	10,556	2,014	3,497	38.8	73.6	5,510	4,602	19.7
EBIT	13,697	7,166	21,902	6,755	11,780	(14.0)	74.4	18,534	19,877	(6.8)
Other Income	2,614	4,985	7,088	4,136	4,738	81.3	14.5	8,874	4,658	90.5
Interest	4	21	553	0	3	(13.5)	1,500.0	3	6	(43.3)
PBT	16,306	12,129	28,437	10,890	16,514	1.3	51.6	27,405	24,529	11.7
Total Tax	4,094	3,083	7,354	2,749	4,148	1.3	50.9	6,897	6,116	12.8
Adjusted PAT	12,212	9,047	21,083	8,141	12,367	1.3	51.9	20,508	18,414	11.4
(Profit)/loss from JV's/Ass/MI	0	-	(0)	2	0	-	-	2	0	-
PAT after MI	12,212	9,047	21,082	8,142	12,367	1.3	51.9	20,509	18,414	11.4
Extra ordinary items	-	2,505	7,229	-	-	-	-	-	-	-
Reported PAT	12,212	11,552	28,312	8,142	12,367	1.3	51.9	20,509	18,414	11.4
Adjusted EPS	18.3	14.3	33.8	12.2	18.5	1.3	51.9	30.7	27.5	11.4
Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	bps	bps	H1FY24	H1FY23	bps
Gross	64.2	56.1	61.9	73.8	58.3	(595)	(1,557)	64.7	67.4	(277)
EBITDA	31.5	17.4	26.0	22.4	27.1	(441)	471	25.2	27.9	(275)
EBIT	26.6	12.6	17.5	17.3	20.9	(572)	365	19.4	22.7	(327)
EBT	31.7	21.4	22.8	27.8	29.3	(239)	149	28.7	28.0	71
PAT	23.7	20.4	22.7	20.8	21.9	(179)	115	21.5	21.0	47
Effective Tax rate	25.1	25.4	25.9	25.2	25.1	1	(13)	25.2	24.9	24

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	2,69,275	2,94,863	3,26,857	3,67,868
YoY gr. (%)	9.4	9.5	10.9	12.5
Cost of Goods Sold	1,01,021	1,29,150	1,46,432	1,68,484
Gross Profit	1,68,254	1,65,713	1,80,425	1,99,384
Margin (%)	62.5	56.2	55.2	54.2
Employee Cost	49,104	52,424	56,257	60,677
Other Expenses	52,358	41,594	43,017	46,371
EBITDA	66,792	71,695	81,151	92,336
YoY gr. (%)	23.5	7.3	13.2	13.8
Margin (%)	24.8	24.3	24.8	25.1
Depreciation and Amortization	17,847	15,794	17,536	19,265
EBIT	48,945	55,901	63,615	73,071
Margin (%)	18.2	19.0	19.5	19.9
Net Interest	580	590	654	736
Other Income	11,007	16,352	19,168	20,832
Profit Before Tax	74,801	71,663	82,129	93,168
Margin (%)	27.8	24.3	25.1	25.3
Total Tax	16,552	18,632	21,354	24,224
Effective tax rate (%)	22.1	26.0	26.0	26.0
Profit after tax	58,249	53,031	60,776	68,944
Minority interest	0	-	-	-
Share Profit from Associate	29	-	-	-
Adjusted PAT	46,262	53,031	60,776	68,944
YoY gr. (%)	17.8	14.6	14.6	13.4
Margin (%)	16.5	17.0	17.6	17.7
Extra Ord. Income / (Exp)	12,015	-	-	-
Reported PAT	58,277	53,031	60,776	68,944
YoY gr. (%)	14.7	(9.0)	14.6	13.4
Margin (%)	21.6	18.0	18.6	18.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	58,277	53,031	60,776	68,944
Equity Shares O/s (m)	669	669	669	669
EPS (Rs)	69.2	79.3	90.9	103.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,58,570	1,74,051	1,91,211	2,08,914
Tangibles	1,17,904	1,28,519	1,40,285	1,52,425
Intangibles	40,667	45,532	50,925	56,489
Acc: Dep / Amortization	90,226	1,05,317	1,22,070	1,40,467
Tangibles	59,917	69,404	79,888	91,303
Intangibles	30,309	35,912	42,182	49,164
Net fixed assets	68,344	68,734	69,141	68,447
Tangibles	57,987	59,114	60,398	61,122
Intangibles	10,358	9,620	8,743	7,325
Capital Work In Progress	18,850	21,342	22,301	23,333
Goodwill	-	-	-	-
Non-Current Investments	18,771	19,464	21,393	23,866
Net Deferred tax assets	11,257	11,257	11,257	11,257
Other Non-Current Assets	35,965	20,640	17,977	14,715
Current Assets				
Investments	-	-	-	-
Inventories	1,21,487	1,45,412	1,74,622	2,11,650
Trade receivables	47,191	52,510	60,894	74,581
Cash & Bank Balance	2,03,166	2,46,711	2,87,281	3,32,276
Other Current Assets	41,891	35,384	37,262	39,730
Total Assets	6,72,038	7,38,013	8,31,334	9,45,273
Equity				
Equity Share Capital	3,344	3,344	3,344	3,344
Other Equity	2,32,378	2,68,496	3,12,042	3,61,306
Total Network	2,35,722	2,71,840	3,15,386	3,64,650
Non-Current Liabilities				
Long Term borrowings	25	25	25	25
Provisions	13,471	14,417	15,471	16,686
Other non current liabilities	1,09,260	1,23,843	1,37,280	1,54,505
Current Liabilities				
ST Debt / Current of LT Debt	1	1	1	1
Trade payables	31,350	34,737	38,506	44,346
Other current liabilities	2,76,922	2,87,216	3,18,090	3,57,665
Total Equity & Liabilities	6,72,038	7,38,013	8,31,334	9,45,273

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	65,095	71,663	82,129	93,168
Add. Depreciation	23,821	17,286	19,206	21,124
Add. Interest	258	590	654	736
Less Financial Other Income	11,007	16,352	19,168	20,832
Add. Other	22,165	(14,536)	(17,139)	(18,552)
Op. profit before WC changes	1,11,339	75,003	84,849	96,476
Net Changes-WC	4,515	10,682	(171)	(2,085)
Direct tax	(27,557)	(18,632)	(21,354)	(24,224)
Net cash from Op. activities	88,297	67,053	63,324	70,167
Capital expenditures	(17,762)	(20,169)	(20,571)	(21,463)
Interest / Dividend Income	7,413	14,536	17,139	18,552
Others	(46,932)	(61,615)	(41,440)	(41,845)
Net Cash from Inv. activities	(57,280)	(67,247)	(44,872)	(44,756)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(16,719)	(16,912)	(17,230)	(19,680)
Interest paid	(557)	(590)	(654)	(736)
Others	(37)	-	-	-
Net cash from Fin. activities	(17,313)	(17,502)	(17,883)	(20,416)
Net change in cash	13,704	(17,697)	570	4,995
Free Cash Flow	70,485	46,884	42,753	48,704

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	69.2	79.3	90.9	103.1
CEPS	95.9	102.9	117.1	131.9
BVPS	352.5	406.5	471.6	545.3
FCF	105.4	70.1	63.9	72.8
DPS	27.5	23.8	27.3	30.9
Return Ratio(%)				
RoCE	14.0	14.3	14.3	14.4
ROIC	26.2	28.9	29.8	30.6
RoE	21.6	20.9	20.7	20.3
Balance Sheet				
Net Debt : Equity (x)	(0.9)	(0.9)	(0.9)	(0.9)
Net Working Capital (Days)	186	202	220	240
Valuation(x)				
PER	29.8	26.0	22.7	20.0
P/B	5.8	5.1	4.4	3.8
P/CEPS	21.5	20.0	17.6	15.6
EV/EBITDA	17.6	15.8	13.4	11.3
EV/Sales	4.4	3.8	3.3	2.8
Dividend Yield (%)	1.3	1.2	1.3	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	56,655	1,24,947	39,154	56,357
YoY gr. (%)	(3.9)	8.1	8.1	9.5
Raw Material Expenses	24,897	47,561	10,242	23,519
Gross Profit	31,758	77,385	28,912	32,838
Margin (%)	56.1	61.9	73.8	58.3
EBITDA	9,854	32,458	8,768	15,276
YoY gr. (%)	(31.0)	30.0	6.1	(5.8)
Margin (%)	17.4	26.0	22.4	27.1
Depreciation / Depletion	2,689	10,556	2,014	3,497
EBIT	7,166	21,902	6,755	11,780
Margin (%)	12.6	17.5	17.3	20.9
Net Interest	21	553	-	3
Other Income	4,972	7,222	4,099	4,694
Profit before Tax	14,622	35,801	10,854	16,470
Margin (%)	25.8	28.7	27.7	29.2
Total Tax	3,083	7,354	2,749	4,148
Effective tax rate (%)	21.1	20.5	25.3	25.2
Profit after Tax	11,539	28,446	8,104	12,323
Minority interest	-	-	(2)	-
Share Profit from Associates	13	(135)	37	44
Adjusted PAT	9,575	22,567	8,142	12,367
YoY gr. (%)	2.6	6.3	31.3	1.3
Margin (%)	16.9	18.1	20.8	21.9
Extra Ord. Income / (Exp)	1,977	5,744	-	-
Reported PAT	11,552	28,312	8,142	12,367
YoY gr. (%)	23.8	(8.8)	31.3	1.3
Margin (%)	20.4	22.7	20.8	21.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,552	28,312	8,142	12,367
Avg. Shares O/s (m)	669	669	669	669
EPS (Rs)	14.3	33.7	12.2	18.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-Sep-23	BUY	2,266	1,889

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,950	4,311
2	Apar Industries	Accumulate	5,630	5,165
3	Bharat Electronics	Accumulate	143	133
4	BHEL	Reduce	67	127
5	Carborundum Universal	BUY	1,408	1,076
6	Cummins India	Hold	1,811	1,767
7	Engineers India	Accumulate	165	143
8	GE T&D India	Hold	367	386
9	Grindwell Norton	BUY	2,604	2,159
10	Harsha Engineers International	Accumulate	415	393
11	Hindustan Aeronautics	BUY	2,266	1,889
12	Kalpataru Projects International	BUY	740	636
13	KEC International	Hold	645	615
14	Larsen & Toubro	BUY	3,437	2,929
15	Praj Industries	Accumulate	611	534
16	Siemens	Accumulate	4,241	3,559
17	Thermax	Hold	2,771	2,895
18	Triveni Turbine	Accumulate	450	392
19	Voltamp Transformers	Hold	5,079	4,989

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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