

February 13, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		BUY	
Target Price	2,787		2,266	
Sales (Rs.m)	3,26,857	3,67,868	3,26,857	3,67,868
% Chng.	-	-	-	-
EBITDA (Rs.m)	80,535	91,579	81,151	92,336
% Chng.	(0.8)	(0.8)	-	-
EPS (Rs.)	91.2	103.4	90.9	103.1
% Chng.	0.3	0.3	-	-

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	71,633	80,535	91,579
Margin (%)	24.8	24.3	24.6	24.9
PAT (Rs. m)	46,262	55,177	60,971	69,123
EPS (Rs.)	69.2	82.5	91.2	103.4
Gr. (%)	17.8	19.3	10.5	13.4
DPS (Rs.)	27.5	24.8	27.4	31.0
Yield (%)	0.9	0.8	0.9	1.1
RoE (%)	21.6	21.7	20.7	20.2
RoCE (%)	14.0	14.3	14.1	14.1
EV/Sales (x)	6.5	5.8	5.1	4.4
EV/EBITDA (x)	26.2	23.8	20.7	17.7
PE (x)	42.2	35.4	32.1	28.3
P/BV (x)	8.3	7.2	6.2	5.3

Key Data

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52-W High / Low	Rs.3,132 / Rs.1,200
Sensex / Nifty	71,555 / 21,743
Market Cap	Rs.1,955bn/ \$ 23,545m
Shares Outstanding	669m
3M Avg. Daily Value	Rs.5598.37m

Shareholding Pattern (%)

Promoter's	71.64
Foreign	12.93
Domestic Institution	9.13
Public & Others	6.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.6)	54.2	138.9
Relative	(1.3)	40.8	101.7

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Decent quarter; long-term story remains strong

Quick Pointers:

- Sharp fall in provisions drove increase in EBITDA margin by 629bps YoY.
- DAC approved AoN for ~97 additional Tejas Mk1A aircraft, ~156 LCH Prachand helicopters and upgradation of ~84 Su-30MKI fighters by HAL.

We revise our FY24E EPS estimate by +4.0% YoY factoring in higher other income, but downgrade the rating to 'Hold' from 'BUY' owing to steep run up in valuation with a revised TP of Rs2,787 (Rs2,266 earlier). Hindustan Aeronautics (HAL) reported 7.0% YoY revenue growth in Q3FY24 with EBITDA margin expanding by 629bps YoY to 23.7%, led by lower provisions. Defence Acquisition Council accorded acceptance of necessity for acquisition of ~97 more Tejas Mk1A aircraft & ~156 LCH Prachand helicopters and upgradation of ~84 Su-30MKI aircraft indigenously by HAL. Meanwhile, capital outlay on aircraft & aeroengines for defence forces in FY25 interim budget grew ~44% to Rs408bn (vs Rs282bn in FY24BE). These positive developments provide a boost to the company's long-term revenue visibility.

We believe HAL is a long-term play on the growing strength & modernization of India's air defence given 1) it is the primary supplier of India's military aircraft, 2) long-term sustainable demand opportunity owing to government's push on indigenous procurement in defence, 3) leap in HAL's technological capabilities due to development of advanced platforms (Tejas, AMCA, etc.), 4) robust order book with further 5-year pipeline of Rs2trn+, and 5) improvement in profitability via scale & operating leverage. The stock is currently trading at a P/E of 32.1x/28.3x on FY25/26E earnings. We roll forward to FY26E and value the stock using an equal-weighted average of DCF-derived price and P/E-derived price based on 28x FY26E (23x Sep-25E earlier). Downgrade to 'Hold'.

Lower provisions & other expenses drive margins up in Q3FY24: Consolidated revenue rose 7.0% YoY to Rs60.6bn (PLe: Rs61.9bn) in Q3FY24. Gross margin fell by 282bps YoY to 53.2% (PLe: 55.0%). EBITDA rose 45.7% YoY to Rs14.4bn (PLe: Rs13.6bn). EBITDA margin expanded by 629bps YoY to 23.7% (PLe: 22.0%) driven by a sharp reduction in provisions to Rs2.4bn (PLe: Rs4.9bn) vs Rs8.1bn in Q3FY23 and lower other expenses (down 13.6% YoY to Rs3.8bn), despite the gross margin decline and higher employee costs (up 14.8% YoY to Rs13.0bn). Adj. PBT grew 39.3% YoY to Rs16.9bn (PLe: Rs14.1bn). Adj. PAT rose 31.7% YoY to Rs12.6bn (PLe: Rs10.6bn; consensus estimate: Rs10.1bn), partly offset by lower other income (down 7.5% YoY to Rs4.6bn) and a higher effective tax rate.

Higher other income & lower provisions drive profitability YTD: Consolidated revenue rose 8.2% YoY to Rs156.1bn in 9MFY24, with gross margin falling by 274bps YoY to 60.2%. EBITDA grew 11.8% YoY to Rs38.4bn with margin increasing by 81bps YoY to 24.6%, as lower provisions (down 38.0% YoY to Rs10.0bn) and other expenses (down 2.8% YoY to Rs11.1bn) offset the gross margin contraction and higher employee costs (up 18.2% YoY to Rs39.0bn). Adj. PAT rose 18.3% YoY to Rs33.1bn, aided by higher other income (up 41.3% YoY to Rs13.4bn).

Exhibit 1: Decent revenue growth and fall in provisions & other expenses drive PAT growth of 31.7% YoY

Y/e March (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY gr. (%)	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Revenue	56,655	1,24,947	39,154	56,357	60,613	7.0	7.6	1,56,123	1,44,328	8.2
Total Revenues	56,655	1,24,947	39,154	56,357	60,613	7.0	7.6	1,56,123	1,44,328	8.2
Expenditure	46,801	92,489	30,385	41,081	46,260	(1.2)	12.6	1,17,725	1,09,994	7.0
<i>as % of sales</i>	<i>82.6</i>	<i>74.0</i>	<i>77.6</i>	<i>72.9</i>	<i>76.3</i>			<i>75.4</i>	<i>76.2</i>	
Consumption of RM	24,897	47,561	10,242	23,519	28,349	13.9	20.5	62,109	53,460	16.2
<i>as % of sales</i>	<i>43.9</i>	<i>38.1</i>	<i>26.2</i>	<i>41.7</i>	<i>46.8</i>			<i>39.8</i>	<i>37.0</i>	
Employee Cost	11,328	16,150	14,037	11,959	13,005	14.8	8.7	39,001	32,953	18.4
<i>as % of sales</i>	<i>20.0</i>	<i>12.9</i>	<i>35.9</i>	<i>21.2</i>	<i>21.5</i>			<i>25.0</i>	<i>22.8</i>	
Other expenditure	10,576	28,777	6,107	5,603	4,906	(53.6)	(12.4)	16,616	23,581	(29.5)
<i>as % of sales</i>	<i>18.7</i>	<i>23.0</i>	<i>15.6</i>	<i>9.9</i>	<i>8.1</i>			<i>10.6</i>	<i>16.3</i>	
EBITDA	9,854	32,458	8,768	15,276	14,353	45.7	(6.0)	38,398	34,334	11.8
Depreciation	2,689	10,556	2,014	3,497	2,122	(21.1)	(39.3)	7,632	7,291	4.7
EBIT	7,166	21,902	6,755	11,780	12,232	70.7	3.8	30,766	27,043	13.8
Other Income	4,972	7,222	4,099	4,694	4,600	(7.5)	(2.0)	13,393	9,479	41.3
Interest	21	553	0	3	4	(82.6)	12.5	7	27	(73.8)
Profit/(loss) from JVs	13	(135)	37	44	67	423.6	51.8	147	163	(10.0)
Extra ordinary items	2,505	7,229	-	-	-	-	-	-	2,505	-
PBT	14,635	35,666	10,890	16,514	16,894	15.4	2.3	44,152	36,495	21.0
Total Tax	3,083	7,354	2,749	4,148	4,279	38.8	3.2	11,176	9,198	21.5
PAT	11,552	28,312	8,141	12,367	12,615	9.2	2.0	32,976	27,297	20.8
Profit/(loss) from MI	-	0	(2)	(0)	1	-	-	(1)	(0)	-
PAT after MI	11,552	28,312	8,142	12,367	12,614	9.2	2.0	32,975	27,297	20.8
Adjusted PAT	9,574	22,573	8,142	12,367	12,614	31.7	2.0	32,975	29,802	10.6
Adjusted EPS	14.3	33.8	12.2	18.5	18.9	31.7	2.0	49.5	41.8	18.3
Margins (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	bps	bps	9MFY24	9MFY23	bps
Gross	56.1	61.9	73.8	58.3	53.2	(282)	(504)	60.2	63.0	(274)
EBITDA	17.4	26.0	22.4	27.1	23.7	629	(343)	24.6	23.8	81
EBIT	12.6	17.5	17.3	20.9	20.2	753	(72)	19.7	18.7	97
EBT	25.8	28.5	27.8	29.3	27.9	204	(143)	28.3	25.3	299
PAT	16.9	18.1	20.8	21.9	20.8	391	(113)	21.1	20.6	47
Effective Tax rate	21.1	20.6	25.2	25.1	25.3	426	21	25.3	25.2	11

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	55,139	59,488	64,377
Other Expenses	52,358	38,940	40,402	43,428
EBITDA	66,792	71,633	80,535	91,579
YoY gr. (%)	23.5	7.2	12.4	13.7
Margin (%)	24.8	24.3	24.6	24.9
Depreciation and Amortization	17,847	15,794	17,536	19,265
EBIT	48,945	55,840	62,999	72,314
Margin (%)	18.2	18.9	19.3	19.7
Net Interest	580	590	654	736
Other Income	11,007	18,516	19,168	20,832
Profit Before Tax	74,801	73,765	81,513	92,411
Margin (%)	27.8	25.0	24.9	25.1
Total Tax	16,552	18,589	20,541	23,288
Effective tax rate (%)	22.1	25.2	25.2	25.2
Profit after tax	58,249	55,177	60,971	69,123
Minority interest	0	-	-	-
Share Profit from Associate	29	-	-	-
Adjusted PAT	46,262	55,177	60,971	69,123
YoY gr. (%)	17.8	19.3	10.5	13.4
Margin (%)	16.5	17.6	17.6	17.8
Extra Ord. Income / (Exp)	12,015	-	-	-
Reported PAT	58,277	55,177	60,971	69,123
YoY gr. (%)	14.7	(5.3)	10.5	13.4
Margin (%)	21.6	18.7	18.7	18.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	58,277	55,177	60,971	69,123
Equity Shares O/s (m)	669	669	669	669
EPS (Rs)	69.2	82.5	91.2	103.4

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	2,48,960	2,89,809	3,35,058
Other Current Assets	41,891	35,384	37,262	39,730
Total Assets	6,72,038	7,40,262	8,33,862	9,48,055
Equity				
Equity Share Capital	3,344	3,344	3,344	3,344
Other Equity	2,32,378	2,69,998	3,13,681	3,63,071
Total Network	2,35,722	2,73,342	3,17,025	3,66,415
Non-Current Liabilities				
Long Term borrowings	25	25	25	25
Provisions	13,471	15,163	16,359	17,704
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	7,40,262	8,33,862	9,48,055

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	65,095	73,765	81,513	92,411
Add. Depreciation	23,821	17,286	19,206	21,124
Add. Interest	258	590	654	736
Less Financial Other Income	11,007	18,516	19,168	20,832
Add. Other	22,165	(15,505)	(17,139)	(18,552)
Op. profit before WC changes	1,11,339	76,137	84,233	95,719
Net Changes-WC	4,515	11,429	(29)	(1,956)
Direct tax	(27,557)	(18,589)	(20,541)	(23,288)
Net cash from Op. activities	88,297	68,976	63,662	70,475
Capital expenditures	(17,762)	(20,169)	(20,571)	(21,463)
Interest / Dividend Income	7,413	15,505	17,139	18,552
Others	(46,932)	(61,615)	(41,440)	(41,845)
Net Cash from Inv. activities	(57,280)	(66,278)	(44,872)	(44,756)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(16,719)	(17,556)	(17,288)	(19,734)
Interest paid	(557)	(590)	(654)	(736)
Others	(37)	-	-	-
Net cash from Fin. activities	(17,313)	(18,146)	(17,942)	(20,470)
Net change in cash	13,704	(15,448)	849	5,249
Free Cash Flow	70,485	48,808	43,091	49,012

Source: Company Data, PL Research

Key Financial Metrics

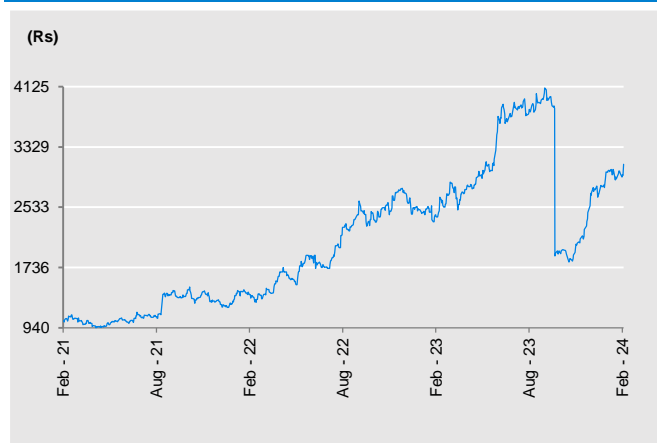
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	69.2	82.5	91.2	103.4
CEPS	95.9	106.1	117.4	132.2
BVPS	352.5	408.7	474.0	547.9
FCF	105.4	73.0	64.4	73.3
DPS	27.5	24.8	27.4	31.0
Return Ratio(%)				
RoCE	14.0	14.3	14.1	14.1
ROIC	26.2	29.4	29.8	30.6
RoE	21.6	21.7	20.7	20.2
Balance Sheet				
Net Debt : Equity (x)	(0.9)	(0.9)	(0.9)	(0.9)
Net Working Capital (Days)	186	202	220	240
Valuation(x)				
PER	42.2	35.4	32.1	28.3
P/B	8.3	7.2	6.2	5.3
P/CEPS	30.5	27.5	24.9	22.1
EV/EBITDA	26.2	23.8	20.7	17.7
EV/Sales	6.5	5.8	5.1	4.4
Dividend Yield (%)	0.9	0.8	0.9	1.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	1,24,947	39,154	56,357	60,613
YoY gr. (%)	8.1	8.1	9.5	(51.5)
Raw Material Expenses	47,561	10,242	23,519	28,349
Gross Profit	77,385	28,912	32,838	32,264
Margin (%)	61.9	73.8	58.3	53.2
EBITDA	32,458	8,768	15,276	14,353
YoY gr. (%)	30.0	6.1	(5.8)	(55.8)
Margin (%)	26.0	22.4	27.1	23.7
Depreciation / Depletion	10,556	2,014	3,497	2,122
EBIT	21,902	6,755	11,780	12,232
Margin (%)	17.5	17.3	20.9	20.2
Net Interest	553	-	3	4
Other Income	7,222	4,099	4,694	4,600
Profit before Tax	35,801	10,854	16,470	16,828
Margin (%)	28.7	27.7	29.2	27.8
Total Tax	7,354	2,749	4,148	4,279
Effective tax rate (%)	20.5	25.3	25.2	25.4
Profit after Tax	28,446	8,104	12,323	12,549
Minority interest	-	(2)	-	1
Share Profit from Associates	(135)	37	44	67
Adjusted PAT	22,567	8,142	12,367	12,614
YoY gr. (%)	6.3	31.3	1.3	(44.1)
Margin (%)	18.1	20.8	21.9	20.8
Extra Ord. Income / (Exp)	5,744	-	-	-
Reported PAT	28,312	8,142	12,367	12,614
YoY gr. (%)	(8.8)	31.3	1.3	(55.4)
Margin (%)	22.7	20.8	21.9	20.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	28,312	8,142	12,367	12,614
Avg. Shares O/s (m)	669	669	669	669
EPS (Rs)	33.7	12.2	18.5	18.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jan-24	BUY	2,266	2,996
2	10-Nov-23	BUY	2,266	2,059
3	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	4,984	4,753
2	Apar Industries	Accumulate	6,890	6,069
3	Bharat Electronics	Hold	182	186
4	BHEL	UR	-	195
5	Carborundum Universal	BUY	1,347	1,116
6	Cummins India	Hold	2,480	2,585
7	Engineers India	Hold	257	244
8	GE T&D India	Reduce	631	736
9	Grindwell Norton	Accumulate	2,512	2,243
10	Harsha Engineers International	Accumulate	441	396
11	Hindustan Aeronautics	BUY	2,266	2,996
12	Kalpataru Projects International	BUY	1,025	873
13	KEC International	Hold	686	657
14	Larsen & Toubro	BUY	4,071	3,480
15	Praj Industries	BUY	636	474
16	Siemens	Accumulate	4,359	4,020
17	Thermax	Hold	2,771	3,200
18	Triveni Turbine	BUY	532	425
19	Voltamp Transformers	Hold	7,619	7,910

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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