

Hindustan Aeronautics (HAL)

Tejas Mk-1A to see delivery ramp up from FY27; maintain BUY

Rating: **BUY**

Target Price (12-mth): Rs.5,768

Share Price: Rs.4,213

HAL's PAT grew 29.3% y/y to Rs18.5bn in Q3FY26 (marginally lower our estimate of Rs20.7bn), led by execution of Russian engines and healthy ROH business. We expect its revenue/PAT to clock ~19/16% CAGR over FY25-28e, driven by ramp-up in LCA Mk-1A deliveries (12/20 aircrafts in FY27/ 28e), Su-30MKI deliveries and further traction in ROH business (foraying into civil MRO activities at Nashik and beginning of upcoming military MRO plant in Assam). Its current OB of Rs2.5trn, gives multi-year revenue assurance. While we have factored in gradual execution acceleration in LCA Tejas Mk-1A programme over FY27-28e, pace of GE-404 engine deliveries would remain the key monitorable. Post correction amid concerns over LCA MK-1A production delays and HAL being out of AMCA project, the stock now trades at ~26.6/22x FY27/28e EPS. We maintain BUY rating on the stock with a DCF-based TP of Rs5,768, which implies ~37% upside from the current level.

Quarterly Snippets: Revenue grew by 10.7% y/y to Rs76.98bn vs. our estimate of Rs78.61bn. Gross margin expanded by 281bps to 53.6%, reflecting higher share of engine and RoH revenue. EBITDA margin expanded by just 3bps to 24.3% in Q3FY26, despite 11.4% y/y lower provisioning (to Rs3.26bn), 28.7% y/y rise in employee cost to Rs16.63bn and 15.3% y/y rise in other expenses to Rs4.79bn. PAT margin grew 262bps to 21.5%, led by 44.7% y/y rise in other income to Rs9.13bn and 451bps decline in tax rate to 25.1%.

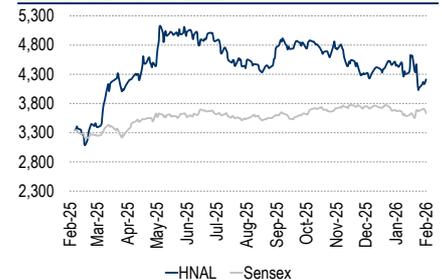
Outlook and Valuation: We model a healthy FCF trajectory through FY31e, aided by ~17.1% revenue CAGR over FY26-28e with improved awarding cycle, ramp-up across key programmes and sustained operating margin. Cash flows are discounted at a WACC of ~11.5% (Rf 6.6%, 5-year adjusted beta 1.1, ERP ~4.4%). Terminal value beyond FY31e is estimated at ~Rs4.3trn, implying a present value of ~Rs2.5trn. Including interim cash flows (Rs838.9bn), we derive an EV of ~Rs3.3trn and equity value of ~Rs3.8trn (Rs5,678/share), implying ~37% upside from CMP of Rs4,213. At CMP, the stock trades at ~26.6/22x FY27/28e EPS (vs. ~31x 1-year forward mean). Expecting >23% RoE with accelerating execution, we maintain BUY rating on the stock with a DCF-based TP of Rs5,768. **Key Risks:** (a) Engine supply delays; (b) execution slippages in Mk1A; (c) WC intensity; and (d) deferral of large defence contracts.

Key Data	HNAL IN / HIAE.BO
52-week high / low	Rs5166 / 3046
Sensex / Nifty	83675 / 25807
Market cap	Rs2978bn
Shares outstanding	669m

Shareholding Pattern (%)	Dec '25	Sep '25	Mar '25
Promoters	71.6	71.6	71.6
- of which, Pledged	0.0	0.0	0.0
Free Float	28.4	28.4	28.4
- Foreign institutions	10.9	12.0	12.1
- Domestic institutions	9.7	8.7	8.3
- Public	7.8	7.7	8.0

Estimates Revision (%)	FY25e	FY26e	FY27e
Sales	0.0	0.0	0.0
EBITDA	-13.7	-12.4	-10.1
PAT	-0.4	-5.1	-4.5

Relative Price Performance



Source: Bloomberg

Key Financials (Y/E Mar)	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rs m)	303,808	309,809	380,500	438,090	521,900
Net profit (Rs m)	75,950	83,168	95,024	105,736	128,216
EPS (Rs)	114	124	142	158	192
P/E (x)	43.8	40.0	29.6	26.6	22.0
EV / EBITDA (x)	31.3	30.5	21.5	18.0	14.5
P / BV (x)	11.5	9.5	6.8	5.8	5.0
RoE (%)	28.9	26.0	25.0	23.6	24.4
RoCE (%)	38.9	33.9	33.4	31.6	32.6
Dividend yield (%)	1.2	0.8	1.1	1.3	1.5
Net debt / Equity (x)	-1.0	-1.1	-1.1	-1.0	-0.9

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income Statement (Rs m)

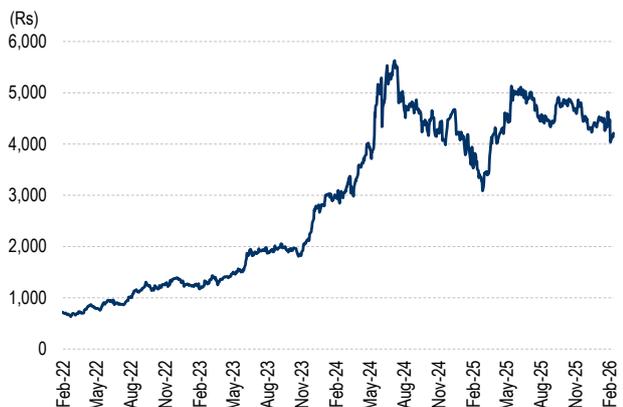
Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Net sales	303,808	309,809	380,500	438,090	521,900
Growth (%)	12.8	2.0	22.8	15.1	19.1
Raw material cost	110,760	123,125	167,420	192,760	229,636
Staff expenses	52,762	57,177	66,636	75,944	89,614
Operating expenses	42,748	33,290	35,955	39,063	44,176
EBITDA	97,539	96,217	110,489	130,323	158,473
EBITDA margin (%)	32.1	31.1	29.0	29.7	30.4
Depreciation	14,214	13,644	15,715	17,627	19,329
Other income	18,985	25,655	32,229	28,631	32,235
EBIT	102,310	108,228	127,004	141,328	171,379
Interest	321	86	103	120	150
Exceptional items	0	-59	0	0	0
Profit before tax	101,990	108,201	126,901	141,208	171,229
Effective tax rates (%)	25.5	23.1	25.1	25.1	25.1
Net Profit	75,950	83,168	95,024	105,736	128,216
Adj. EPS Rs	114	124	142	158	192

Fig 3 – Cash-flow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	101,990	108,200	126,901	141,208	171,229
+ Non-cash items	14,214	13,620	15,715	17,627	19,329
Oper. prof. before WC	116,204	121,820	142,616	158,835	190,558
- Incr. / (decr.) in WC	-31,220	47,665	-8,906	-20,834	-35,500
Others incl. taxes	-2,726	-33,034	-37,854	-36,923	-44,227
Operating cash-flow	82,257	136,451	95,856	101,077	110,830
- Capex (tang. + intang.)	-17,469	-17,532	-23,556	-28,501	-28,366
Free cash-flow	64,788	118,919	72,300	72,576	82,464
Acquisitions	0	0	0	0	0
- Div. (incl. buyback & taxes)	-19,729	-25,414	-32,101	-35,445	-42,133
+ Equity raised	0	0	-0	0	0
+ Debt raised	-3	-0	0	0	0
- Fin investments	-64,125	-115,790	-526	-113,794	-2,300
- Misc. (CFI + CFF)	17,221	25,213	-78	-76	-73
Net cash-flow	-1,848	2,928	39,595	-76,738	37,959

Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 2 – Balance Sheet (Rs m)

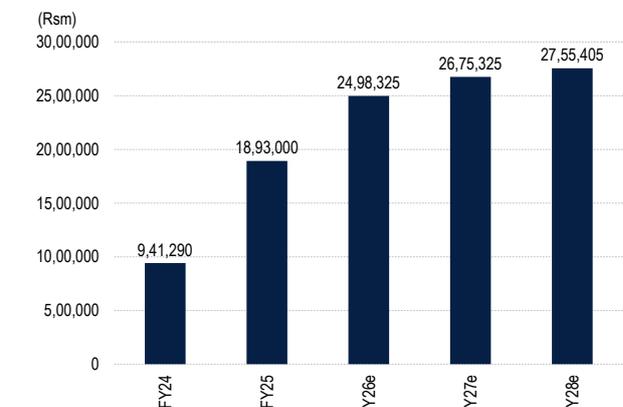
Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	3,344	3,344	3,344	3,344	3,344
Net worth	290,464	348,429	412,768	483,060	569,143
DTL / (Assets)	-14,543	-15,680	-15,680	-15,680	-15,680
Capital employed	275,921	332,749	397,088	467,380	553,463
Net tangible assets	28,901	30,077	30,722	32,463	32,727
Net intangible assets	53,965	56,625	63,831	71,963	79,737
CWIP (tang. & intang.)	9,358	10,910	11,200	12,500	13,800
Investments (strategic)	1,204	1,282	1,300	1,400	1,400
Investments (financial)	13,767	14,991	15,500	16,200	18,500
Long-term liabilities	-126,141	-271,743	-352,309	-351,540	-352,967
Long-term assets	27,942	30,743	34,454	36,989	39,039
Current assets (ex. cash)	365,939	519,116	736,707	799,256	867,393
Cash	264,218	381,708	421,293	457,549	495,508
Current liabilities	363,232	440,960	565,608	609,400	641,674
Net working capital	2,707	78,155	171,099	189,856	225,720
Capital deployed	275,921	332,749	397,088	467,380	553,463

Fig 4 – Ratio Analysis

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	43.8	40.0	29.6	26.6	22.0
EV / EBITDA (x)	31.3	30.5	21.5	18.0	14.5
EV / Sales (x)	10.0	9.5	6.3	5.3	4.4
P/B (x)	11.5	9.5	6.8	5.8	5.0
RoE (%)	28.9	26.0	25.0	23.6	24.4
RoCE (%) - after tax	38.9	33.9	33.4	31.6	32.6
Gross margins	63.5	60.3	56.0	56.0	56.0
DPS (Rs)	59.0	38.0	48.0	53.0	63.0
Dividend yield (%)	1.2	0.8	1.1	1.3	1.5
Dividend payout (%) - incl. DDT	26.0	30.6	33.8	33.5	32.9
Net debt / equity (x)	-1.0	-1.1	-1.1	-1.0	-0.9
Receivables (days)	159	255	350	280	210
Inventory (days)	55	55	60	70	70
Payables (days)	41	60	60	60	60
CFO : PAT %	108	164	101	96	86

Source: Company, Anand Rathi Research

Fig 6 – Order Book



Source: Company

Quarterly Financials

Fig 7 – Quarterly Performance - Consolidated

Particulars (Rs mn)	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	y/y (%)	q/q (%)	9mFY25	9mFY26	y/y (%)
Net Turnover	69,569	1,36,999	48,191	66,285	76,989	10.7	16.1	1,72,811	1,91,465	10.8
Consumption of RM, Components & Spares	31,803	1,15,533	31,620	40,720	45,319	42.5	11.3	77,046	1,17,659	52.7
Change in Inventories of FG, SIT and WIP	955	-68,275	-17,252	-12,733	-11,165	na	na	-7,972	-41,150	na
Purchase of Stock-in-trade	1,500	2,502	1,054	1,175	1,592	6.2	35.5	4,292	3,821	-11.0
Total Raw Material Cost	34,258	49,760	15,422	29,162	35,746	4.3	22.6	73,366	80,331	9.5
Gross Profit	35,312	87,239	32,769	37,122	41,243	16.8	11.1	99,445	1,11,134	11.8
Employee Expenses	12,930	18,078	13,797	13,319	16,637	28.7	24.9	39,099	43,752	11.9
Direct Input to WIP/ Expenses capitalised	1,070	1,430	812	1,250	1,840	72.0	47.2	2,293	3,902	70.1
Provision	3,679	14,365	2,952	5,173	3,260	-11.4	-37.0	10,937	11,385	4.1
Other Expenses	4,155	5,580	4,775	5,153	4,792	15.3	-7.0	12,237	14,720	20.3
Expenditure of Capital Nature	-3,423	-5,234	-2,429	-3,364	-4,010	na	na	-8,316	-9,802	na
Total Other Expenditure	5,480	16,140	6,109	8,212	5,883	7.3	-28.4	17,151	20,204	17.8
Total Operating Expenditure	52,668	83,978	35,328	50,693	58,266	10.6	14.9	1,29,615	1,44,287	11.3
EBITDA	16,901	53,021	12,863	15,591	18,723	10.8	20.1	43,196	47,178	9.2
Other Income	6,312	6,527	7,489	8,889	9,135	44.7	2.8	19,128	25,514	33.4
Depreciation Expenses	2,862	7,461	1,873	2,273	3,130	9.3	37.7	6,183	7,275	17.7
EBIT	20,351	52,087	18,480	22,208	24,728	21.5	11.3	56,140	65,416	16.5
Finance Costs	1	84	3	3	10	na	na	2	16	700.0
PBT before exceptional Items	20,350	52,003	18,477	22,205	24,719	21.5	11.3	56,138	65,400	16.5
Exceptional Items	0	0	0	0	0			-59	0	
PBT after exceptional Items	20,350	52,003	18,477	22,205	24,719	21.5	11.3	56,197	65,400	16.4
Prior period expenses	0	0	0	0	0			0	0	
Tax Expenses	6,024	12,420	4,705	5,579	6,202			15,173	16,486	8.7
Current Tax	5,508	13,910	4,608	5,018	5,849	6.2	16.6	14,890	15,475	
Earlier Tax (Refund)/ Liability								0	0	
Deferred Tax	516	-1,490	98	561	353			282	1,012	
Reported PAT	14,326	39,583	13,772	16,625	18,517	29.3	11.4	41,025	48,914	19.2
Extra-ordinary Items	0	0	0	0	0			0	0	
Reported PAT (after extraordinary items)	14,326	39,583	13,772	16,625	18,517	29.3	11.4	41,025	48,914	19.2
Adj. PAT	14,326	39,583	13,772	16,625	18,517	29.3	11.4	40,966	48,914	19.4
Shares o/s	669	669	669	669	669			669	669	
Adj. EPS	21.4	59.2	20.6	24.9	27.7			61.3	73.1	19.4
						bps	bps			bps
Gross Margin (%)	50.8	63.7	68.0	56.0	53.6	281	-243	57.5	58.0	50
EBITDA Margin (%)	24.3	38.7	26.7	23.5	24.3	3	80	25.0	24.6	-36
EBIT Margin (%)	29.3	38.0	38.3	33.5	32.1	287	-138	32.5	34.2	168
PBT Margin (%)	29.3	38.0	38.3	33.5	32.1	286	-139	32.5	34.2	164
Tax Rate (%)	29.6	23.9	25.5	25.1	25.1	-451	-4	27.0	25.2	-179
Adj PAT Margin (%)	18.9	27.6	24.7	22.1	21.5	262	-61	21.3	22.5	120

Source: Company, Anand Rathi Research

Fig 8 – Change in Estimates

(Rs m)	FY26e			FY27e			FY28e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	3,80,500	3,80,500	0.0	4,38,090	4,38,090	0.0	5,21,900	5,21,900	0.0
EBITDA	1,28,067	1,10,489	-13.7	1,48,808	1,30,323	-12.4	1,76,189	1,58,473	-10.1
PAT	95,425	95,024	-0.4	1,11,434	1,05,736	-5.1	1,34,240	1,28,216	-4.5

Source: Company, Anand Rathi Research

Key Quarterly Developments

- HAL signed an agreement with HENSOLDT for transfer of technology and integration of advanced Obstacle Avoidance Systems (OAS) on Indian military helicopters.
- The company signed a contract with GE Aerospace for 113 F404-GE-IN20 engines and support for LCA Mk-1A programme (deliveries scheduled for 2027-2032).
- HAL's next-gen civilian version of Dhruv Helicopter flew for first time, signalling its firm entry into the civil aviation helicopter sector.

Outlook & Valuation

HAL is likely to report sharp increase in orders to ~Rs1trn, taking its OB to Rs2.5trn by FY26. We expect traction in LCA Mk-1A, HTT-40, Su-30 MKI and Russian engine programmes over FY26-28e. Thus, we expect 17.1% revenue CAGR over FY26-28e, driven by 76% revenue CAGR in manufacturing segment. Given its long execution track record, we now expect orders of Rs2.2trn over FY26-28e. We expect the strong revenue growth to percolate to 16.2% earnings CAGR over FY26-28e, aided by: (a) focus on more indigenisation across platforms; (b) better absorption of Rs60-65bn of fixed cost (wage revision frozen for 10 years starting FY17).

HAL's business model is structurally different from most listed industrial players. Government procurement pipelines for fighter jets, helicopters, engines, upgrades and MRO are clearly articulated over 15 to 25 year horizon. Hence, we believe investors should evaluate HAL with a five-year investment horizon, instead of 1-2-year perspective. Hence, we transition to a DCF-based valuation framework with (a) forecast period aligned to production ramp cycles (5+ years); (b) 4% terminal growth rate assuming HAL's entrenched position in India's aerospace ecosystem; (c) explicit modelling of WC tied to milestone billing; and (d) capex for capacity expansion.

We have used DCF methodology, which yields fair value of Rs5,678/share with an expected healthy FCF over FY31e, assuming 17.1% revenue CAGR over FY26-28e, driven by favourable awarding cycle, ramp-up across key program and strong continued operating margin. These cash flows are discounted at a WACC of ~11.5% (Rf 6.6%, 5-year adjusted beta of 1.1, equity risk premium of ~4.4% to arrive at cost of equity of ~11.5%). Terminal value beyond FY31 is estimated at ~Rs4.3trn, which at 11.5% discount rate results in a current value of ~Rs2.5trn. Summing the present value of interim cash flows (Rs838.9bn for the next 5 years) and the terminal value, we arrive at a total EV of Rs3.3trn.

Post correction amid concerns over LCA MK-1A production delays and HAL being out of AMCA project, the stock now trades at ~26.6/22x FY27/28e EPS (vs. 1-year forward mean of ~31x). HAL is entering its best execution phase with ~17.1% revenue CAGR over FY26-28e (fastest since FY10).

We maintain BUY rating on the stock with a DCF-based TP of Rs5,768, valuing it at implied P/E multiple of 35.6/29.6x of FY27/28e EPS, implying ~37% upside from the current level. With sustainable long-term growth, >23% RoE and greater cash-generation potential over FY26-28e, we believe the implied premium valuation is justified.

Fig 9 – DCF

(Rsm)	FY21	FY22	FY23	FY24	FY25	FY26e	FY27e	FY28e	FY29e	FY30e	FY31e
Revenue	2,28,824	2,46,202	2,69,279	3,03,808	3,09,809	3,80,500	4,38,090	5,21,900	5,77,960	6,66,545	7,47,442
Revenue growth rate (%)		8	9	13	2	23	15	19	11	15	12
EBIT	45,345	52,893	65,509	1,02,310	1,08,228	1,27,004	1,41,328	1,71,379	1,82,420	2,00,374	2,27,134
EBIT margin (%)	19.8	21.5	24.3	33.7	34.9	33.4	32.3	32.8	31.6	30.1	30.4
Tax rate (%)	24.3	2.8	10.5	25.5	23.1	25.1	25.1	25.1	25.1	25.1	25.1
EBIT (1-t)	34,342	51,431	58,630	76,189	83,189	95,100	1,05,826	1,28,328	1,36,596	1,50,040	1,70,078
Gross Assets	1,44,580	1,55,715	1,77,321	1,93,538	2,10,930	2,34,196	2,61,397	2,88,463	3,12,228	3,34,493	3,56,793
Asset Turnover	1.6	1.6	1.5	1.6	1.5	1.6	1.7	1.8	1.9	2.0	2.1
Depreciation	12,210	12,863	23,813	14,214	13,644	15,715	17,627	19,329	21,261	23,076	24,853
as a % of Assets	8.4	8.3	13.4	7.3	6.5	6.7	6.7	6.7	6.8	6.9	7.0
Capex	(12,063)	(14,970)	(17,761)	(17,469)	(17,532)	(23,556)	(28,501)	(28,366)	(23,765)	(22,265)	(22,300)
Change in NWC	92,450	12,589	4,556	(31,220)	47,665	(8,906)	(20,834)	(35,500)	(22,617)	(88,154)	(96,433)
as a % of Sales	40.4	5.1	1.7	-10.3	15.4	-2.3	-4.8	-6.8	-3.9	-13.2	-12.9
FCFF	(33,835)	66,674	95,648	1,39,093	66,701	1,43,277	1,72,788	2,11,524	2,04,239	2,83,535	3,13,664
yoy change (%)		-297	43	45	-52	115	21	22	-3	39	11
Cost of Capital/ WACC (%)	11	11	11	11	11	11	11	11	11	11	11
Cumulated Discount Factor	100	100	100	100	100	100	90	81	72	65	58
PV (FCFF)	(33,835)	66,674	95,648	1,39,093	66,701	1,43,277	1,55,032	1,70,284	1,47,523	1,83,754	1,82,390

Rf	6.6%
5-year Adj. Beta	1.1
CAPM - Cost of Equity	11%
Cost of Debt	10%
Effective tax rate	25%
Weight of Equity	100%
Weight of Debt	0%
WACC	11%

Terminal Value	43,76,781
PV (Terminal Value)	25,45,025

PV (CF over next 5 years)	8,38,984	1,254	22%
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Sum of PV	33,84,009
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Value of Std. Operating Assets

- Debt	-	0	0%
- Minority Interest			
+ Cash	4,57,549	684	12%
+ Investments	16,200	24	0%
Value of Equity	38,57,758		
Number of Shares	669		
Estimated Value/ share	5,768		
CMP	4,213		
Upside/ (Downside)	36.9%		

Source: Company, Anand Rathi Research

Key Risks

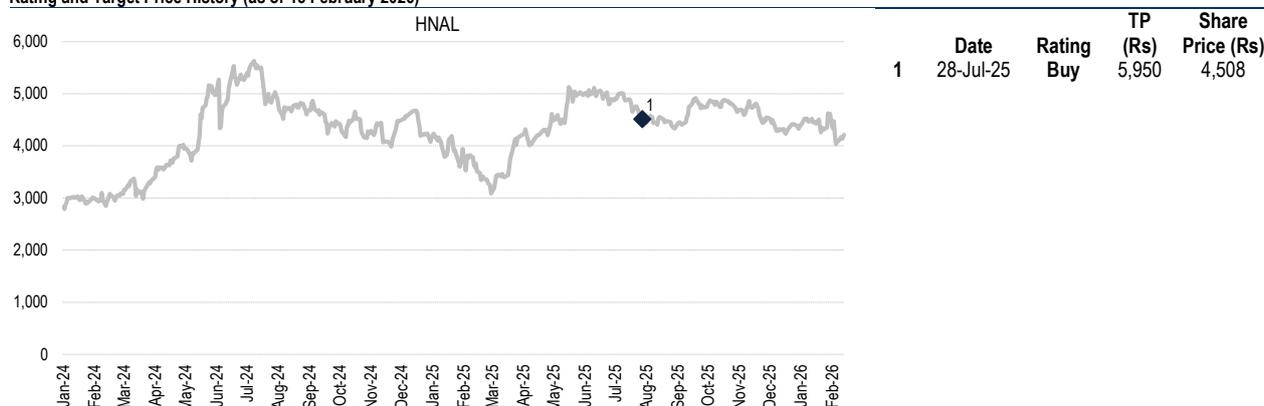
- Engine supply delays.
- Execution slippages in Mk1A.
- WC intensity.
- Deferral of large defence contracts.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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